

**OVERSIGHT OF THE YEAR 2000 PROBLEM: THE  
Y2K STATUS OF THE DEPARTMENT OF HEALTH  
AND HUMAN SERVICES**

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**HEARING**

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,  
INFORMATION, AND TECHNOLOGY

OF THE

**COMMITTEE ON  
GOVERNMENT REFORM**

**HOUSE OF REPRESENTATIVES**

ONE HUNDRED SIXTH CONGRESS

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## CONTENTS

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Hearing held on February 26, 1999 .....	Page 1
Statement of:	
DeParle, Nancy-Ann, Administrator, Health Care Financing Administration; and John J. Callahan, Chief Information Officer, Department of Health and Human Services .....	54
Willemssen, Joel C., Director, Civil Agencies Information Systems, General Accounting Office .....	5
Letters, statements, etc., submitted for the record by:	
Callahan, John J., Chief Information Officer, Department of Health and Human Services:	
Chronology of reengineered payment management system .....	100
HHS's total Y2K costs .....	102
Information concerning cost of payment management system .....	108
Information concerning cost of secondary system .....	109
Information concerning the original payment management system .....	109
Information concerning total revenue .....	109
Prepared statement of .....	76
DeParle, Nancy-Ann, Administrator, Health Care Financing Administration:	
Letter dated January 12, 1999 .....	103
Prepared statement of .....	57
Willemssen, Joel C., Director, Civil Agencies Information Systems, General Accounting Office:	
Information concerning HHS's payment management system .....	48
Prepared statement of .....	7



## **OVERSIGHT OF THE YEAR 2000 PROBLEM: THE Y2K STATUS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**FRIDAY, FEBRUARY 26, 1999**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,  
INFORMATION, AND TECHNOLOGY,  
COMMITTEE ON GOVERNMENT REFORM,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 9 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Morella, Biggert, and Turner.

Also present: Representative Gordon.

Staff present: J. Russell George, staff director and chief counsel; Matt Ryan, senior policy director; Bonnie Heald, director of information, and professional staff member; Mason Alinger, clerk; Paul Wicker, Kacey Baker, and Richard Lukas, interns; Michelle Ash and Faith Weiss, minority counsels; Ellen Rayner, minority chief clerk; and Jean Gosa and Earley Green, minority staff assistants.

Mr. HORN. The Subcommittee on Government Management, Information, and Technology will come to order.

There are only 308 days left to reassure American citizens that the computer systems, those that are critical to our lives, are year 2000 compliant. Unfortunately, even today, many private organizations and governmental entities are only now recognizing the potential severity of this problem. Some are just starting to fix their systems, leaving little, if any, time for one of the most important aspects of this effort—adequate testing.

The problem is real, the consequences serious, and the deadline is unmovable.

The House Subcommittee on Government Management, Information, and Technology has focused on the potential problem since early 1996. On Monday, our subcommittee issued its seventh report card, which showed considerable improvement throughout the Federal Government. However, much work still remains. We will continue to steadfastly monitor the Federal Government's year 2000 readiness and sternly prod those departments and agencies that lag behind.

Today we will hear about the status of year 2000 technology initiatives at the Department of Health and Human Services [HHS], and one of its key components, the Health Care Financing Administration, otherwise known as HCFA.

Since November, and as shown in our most recent report card, HHS has reported substantial improvement in making its mission critical systems year 2000 compliant. Currently, HHS reports that about 83 percent of its mission critical systems are compliant, due in large part to HCFA's reported increase in mission critical system compliance. We look forward this morning to learning how HHS righted itself in grappling with its year 2000 issues.

In addition, we will hear from the General Accounting Office, Congress' auditing arm on program and money, which has been doing outstanding work for this subcommittee over the last 3 years on this issue.

The Department of Health and Human Services provides vital services to the American public, ranging from health care and food safety to AIDS research. In addition, the Health Care Financing Administration approves more than \$300 billion annually in medical bills for over 72 million of America's most vulnerable citizens, the elderly, the poor and the sick. But will these payments continue on January 1st? How year 2000 ready is HCFA and how ready are the numerous health care contractors and providers involved in Medicare?

Finally, how prepared are the States for providing Medicaid services to the nearly 35 million people who otherwise could not afford to seek medical help. No Federal entity is an island unto itself and no Federal entity can be complacent regardless of its Y2K status until its partner organizations, in this case the doctors, hospitals and the State and local governments, are also adequately prepared for the new millennium. HHS is also responsible for processing about \$170 billion a year in Federal grants through its large payment management system. This centralized system processes most Federal assistance grants, including block grants, to over 20,000 recipient accounts. For example, this system processes 98 percent, or about \$95 billion, of the Federal Government's share of Medicaid grants. The big concern for us in Congress is that this critically important system is not yet year 2000 compliant.

I look forward to delving into these and other highly important issues this morning. I welcome today's witnesses and look forward to their testimony.

We have a total of three witnesses for this hearing and we are going to start with panel one, being Joel Willemsen, the Director of Civil Agencies, Information Systems, General Accounting Office. Panel two will then come up, John J. Callahan, the Chief Information Officer for the Department of Health and Human Services, and Nancy-Ann DeParle, Administrator of HCFA.

I would now like to yield to Mr. Gordon, the ranking member on the Committee on Technology of the House Committee on Science. The gentleman from Tennessee.

MR. GORDON. Thank you, Mr. Chairman. I have a constituent at home by the name of Barbara Mandrell. She had a song a few years ago entitled, "I Was Country Before Country Was Cool" and let me just say that Steve Horn has been singing the problem of Y2K long before it was cool, and we owe you a debt of gratitude in raising this awareness in our country. I was with the EU last week and I was dismayed when we talked with many of their parliamentarians that for some reason they think that this problem is

going to go away. I want to thank you for putting this country on notice, and I think your report cards help us all to better focus.

Mr. HORN. I now yield for an opening statement to a new Member from Illinois, the vice chairman of the Subcommittee on Government Management, Information, and Technology, Mrs. Biggert.

Mrs. BIGGERT. Thank you, Chairman Horn. You always start on time to the very minute, and we always appreciate that. This certainly is an important issue and I look forward to the testimony. I think that—how many days do we have now, about 310?

Mr. HORN. 308.

Mrs. BIGGERT. So the year 2000 is not going to wait and I look forward to these hearings. And I think that the more hearings that we have, the more education that we have on this issue, the more that we raise the consciousness of the American people and the importance for all industry, government, local government and Federal Government and State government, to really assure us that we are going to be ready for the year 2000.

Thank you.

Mr. HORN. Thank you. And we now have as our first witness and I think you all know the routine. All of the subcommittees of the Government Reform Committee swear in all witnesses, and we will start with you, Mr. Willemssen.

[Witness sworn.]

Mr. HORN. The clerk will note that the witness affirmed and we will begin with this overview and then ask panel two to join us and have their testimony, and then it will be essentially a dialog of the committee and the witnesses.

Let me just withhold, the distinguished ranking member from Texas, Mr. Turner, is here. Do you have an opening statement? He is always a constructive member of this committee.

Mr. TURNER. Thank you, Mr. Chairman. I want to thank you, first of all, for holding this hearing, both you and Chairwoman Morella have been active in leadership in this area.

We are here to discuss the efforts of the Department of Health and Human Services to resolve the year 2000 problem. In September 1998, the General Accounting Office reported that HCFA and its contractors were behind schedule in testing, repairing, and implementing the systems that support Medicare. At that time, the GAO concluded that it was highly unlikely that the Medicare systems would be compliant in time to ensure uninterrupted delivery of benefits and services.

Even as recently as February of this year we have learned that only 54 of the 78 contractor systems were compliant and 5 of these 24 noncompliant systems were more than 2 months behind schedule. We have additionally learned that while HCFA's contractors have made progress, seven are at risk of missing the federally imposed March 31st deadline.

In addition, HCFA has been in the process of determining whether to update its current payment management system or to use a new system. The payment management system processes about \$170 billion annually or about 75 percent of all Federal grant and aid programs, and HCFA has chosen to update and maintain this system through the year 2000. Given the time spent in making this determination, Y2K efforts to test this system did not begin until

later than expected, and HCFA will be conducting tests next month.

Further, the ability of HCFA's computers to communicate with non-Federal computers is a very serious concern. HCFA communicates with hospitals, physicians, State governments, and its own contractors on a daily basis, and if problems arise in these non-Federal systems, the communication efforts of HCFA will be adversely impacted.

Another area of concern is the area of medical equipment. It bears mentioning that the Food and Drug Administration has a number of Y2K concerns relating to medical equipment, and as of January 12th, only 1,438 of the 1,932 targeted manufacturers had submitted Y2K data on their biomedical equipment to the Federal Y2K Biomedical Equipment Clearinghouse.

What this means to the American people is that there are still a number of products about which there is not sufficient information to know its Y2K status. A further concern is the fact that the majority of manufacturers are not affirmatively notifying users that potential problems may exist in their equipment.

One solution will be to require the manufacturers to notify the device users, including hospitals and nursing homes, of other potential Y2K problems. Still further, there is concern that many consumers may attempt to hoard prescription drugs at the turn of the century, and given the brief shelf life of some prescription medications, the FDA must create contingency plans for potential drug shortages.

Before we move into January 2000, it will certainly be necessary to find a solution to the problem of shortages of prescription drugs. One of HHS's largest problems is the readiness of State governments which administer the various HHS programs. As you know, States administer Federal benefits pursuant to Medicare, child care, food stamps, and other government programs. The recipients of these benefits are often the elderly or the disabled who will have limited financial resources or single mothers struggling to make ends meet.

That is why I know that HHS will take the issues of State readiness very seriously, and I am encouraged to hear that HCFA is taking steps to identify and work with those States that have been identified as being the furthest behind. State readiness for Y2K is a critical concern and one that HCFA should be following closely.

Also appearing most susceptible to disruptions are the inner city municipal hospitals and the rural health care providers. Given their geographic locations, rural providers often do not have the resources of larger institutions, and I am particularly interested in hearing what HCFA is doing to ensure that the Y2K concerns of our rural health care providers are being adequately addressed.

I come from a rural district, and I know that rural hospitals and rural health care providers need to be confident that HCFA will reimburse them for their services in a timely manner. HCFA has assured us if a claim gets into the processing system, it will get paid. However, Medicare claims are submitted to HCFA contractors either through independent billing agents or directly by providers. A claim is only considered in HCFA's system once it is received by the contractor, and I would like to hear more today about how we



can ensure that these billing agents and these independent providers, such as rural hospitals, will be compliant so that the providers can be certain that they will be paid.

I realize there is much in the system that is out of the direct control of HCFA, but I think it is HCFA's responsibility to be sure that those independent contractors are adequately preparing for Y2K.

Mr. Chairman, thank you again for having this hearing. This is probably one of the most critical hearings that we have had and with an agency that you and I both know has probably had more problems than most of the agencies that we have had before this committee.

Mr. HORN. I thank the gentleman from Texas and since I grew up in rural America on a farm, I share your views. Thank you.

Now, Mr. Willemssen. I think all of the members of the committee know this gentleman. He has done a splendid job in his role with his team over at the General Accounting Office as Director of Civil Agencies Information Systems, and when we have held hearings throughout the country, Mr. Willemssen has been there with the opening statement and we welcome you today.

**STATEMENT OF JOEL C. WILLEMSEN, DIRECTOR, CIVIL AGENCIES INFORMATION SYSTEMS, GENERAL ACCOUNTING OFFICE**

Mr. WILLEMSEN. Thank you, Mr. Chairman. I will briefly summarize the readiness of HHS to address the Y2K issue, and in particular focus on HCFA and Medicare, and then on the Payment Management System.

First regarding HCFA and Medicare Y2K, we originally reported our concerns with this nearly 2 years ago and at that time the level of HCFA management attention on Y2K was minimal. Instead much of the agency's system focus was on a failed effort known as the Medicare Transaction System which was intended to replace existing part A and part B core computing systems.

As we have previously testified, this effort was terminated after about \$80 million was spent and not one line of software had been delivered. It is important to keep that history in mind as we now look at the large challenge that HCFA faces in addressing Y2K.

We reported last fall that with its very late start on Y2K, HCFA faced the prospect of having too much to do in too little time. Many of the basic Y2K management practices that we would have expected to have seen were not there. Our conclusions and recommendations to the Administrator reflected our concern about the high level of risk facing HCFA. HCFA has been responsive to our recommendations and the Administrator is to be commended for making Y2K the agency's top priority and directing a number of actions to more effectively direct the project. Among these many actions has been an important commitment to business continuity and contingency planning to ensure that in the event of system failures, beneficiaries will still receive care and providers will be paid. Despite its progress, we still have serious concerns with where HCFA is with Medicare and Y2K.

First, HCFA's reported external systems progress on Y2K is highly overstated. HCFA and HHS recently reported that 54 contractor systems were compliant as of December 31st. In fact none

of these 54 should have been considered compliant. All had important exceptions, some of them very significant.

According to HCFA officials they reported these systems as compliant because the qualifications were minor problems that should not take much time to address. This is at variance with the report of HCFA's independent verification and validation contractor on about February 16th. At that time the contractor found the qualifications to be critical, most requiring a major to moderate level of effort to resolve.

Among the other issues that HCFA needs to address: One, HCFA still lacks an integrated schedule that lays out a critical path for the most important tasks that have to be done.

Two, HCFA has thousands of data exchanges that remain to be remediated and tested.

Three, HCFA faces a tremendous amount of testing for the remainder of this year, testing both at a system level, for changes to resolve the existing qualifications, as well as other legislatively mandated changes that will go into effect. All of that testing will ultimately determine whether HCFA's systems are indeed compliant. Given the magnitude of the challenge that HCFA faces, it is absolutely critical that the Administrator sustain her commitment to complete and test business continuity and contingency plans so that if system failures occur, HCFA will be positioned with backup plans.

Next, let me turn briefly to HHS's Payment Management System and the Program Support Center. As noted, a key activity for this center is providing grant payments totaling over \$165 billion annually to about 20,000 recipient organizations. The payment management system is instrumental to making sure those payments are made. However, the system is not yet Y2K compliant and it is unclear at this point when it will be. In 1995 there was an effort begun to replace the existing system with a new state-of-the-art system that was expected to be Y2K compliant and operational by October 1997. However, since its inception, that planned system replacement has encountered problems and as a result is still not operational. We understand that the Program Support Center has contracted with a company to conduct an analysis of whether to rely on the replacement system as the year 2000 solution or rely on their existing system and remediate and test that. Regardless of the outcome of that analysis, and I believe that HHS may be providing the results today, there will be a tremendous amount of work remaining to make sure, whether the existing system or replacement system is the solution, that is indeed Y2K compliant. That concludes a summary of my statement. I would be pleased to address any questions that you have.

[The prepared statement of Mr. Willemsen follows:]

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**GAO**

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**United States General Accounting Office****Testimony**

Before the Subcommittee on Government Management,  
Information and Technology, Committee on Government  
Reform, House of Representatives

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For Release on Delivery  
Expected at  
9 a.m.  
Friday,  
February 26, 1999

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**YEAR 2000 COMPUTING  
CRISIS****Readiness Status of the  
Department of Health and  
Human Services**

Statement of Joel C. Willemsen  
Director, Civil Agencies Information Systems  
Accounting and Information Management Division



Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to participate in today's hearing focusing on the readiness of the computer systems of the Department of Health and Human Services (HHS) overall and of some of its component organizations to function reliably into the next century. HHS is a vast department; its components face varying challenges in making sure that its programs do not suffer interruption in the delivery of benefits and services upon which millions of Americans depend.

I would like to begin today by summarizing the information contained in HHS' most recent Year 2000 (Y2K) quarterly report to the Office of Management and Budget (OMB), reflecting progress made as of December 31, 1998. I will then offer more specific comments in areas in which we have done work, including the Health Care Financing Administration's (HCFA) Medicare and Medicaid programs, the Administration for Children and Families' (ACF) state human services programs, the Program Support Center's (PSC) Payment Management System (PMS), and the biomedical equipment efforts of the Food and Drug Administration (FDA).

REPORTED COMPLIANCE STATUS OF HHS SYSTEMS

As the following table illustrates, HHS reported that as of December 31, 1998, 83 percent of its mission-critical systems were Y2K compliant (243 of 294). Of its 34 systems remaining to be repaired, 99 percent were reported to be renovated, 81 percent validated, and 77 percent implemented.

Table 1: Year 2000 Compliance Status of HHS' Mission-Critical Systems, December 31, 1998, as reported to OMB on February 10, 1999.

HHS Agency	Total Systems	Number Compliant	To Be Replaced	To Be Repaired	To Be Retired
HCFA Internal	25	25 <sup>a</sup>	0	0	0
HCFA External	82	54	0	24	4
ACF	45	45	0	0	0
PSC	8	3	1	4	0
FDA	34	30	4	0	0
Other HHS <sup>b</sup>	100	86	5	6	3
<b>Total HHS</b>	<b>294</b>	<b>243</b>	<b>10</b>	<b>34</b>	<b>7</b>

<sup>a</sup>Includes four systems that require additional coordination of internal and external interfaces.

<sup>b</sup>Includes the Administration on Aging, Centers for Disease Control and Prevention, Health Resources and Services Administration, Indian Health Service, National Institutes of Health, Office of Inspector General, and Substance Abuse and Mental Health Services Administration.

Source: Department of Health and Human Services' quarterly report to OMB, February 10, 1999.

In addition to the work that remains to correct its mission-critical systems, HHS has much work left in the embedded systems, facilities, and telecommunications areas. Specifically, according to its February 10, 1999, report to OMB, HHS had (1) assessed about 40 percent of its embedded systems (primarily biomedical equipment) and (2) assessed 20 percent of its facilities. Further, HHS reported that it had two operating divisions with compliant telecommunications systems as well as others in varying stages of assessing and/or remediating their telecommunications systems.

MUCH WORK REMAINS TO ACHIEVE COMPLIANCE AT HCFA

In a report issued last year, we concluded that the progress made by HCFA—and its contractors—in making its computers that process Medicare claims Year 2000 compliant was severely behind schedule in areas including repair, testing, and implementation.<sup>1</sup> Further, we made numerous recommendations to improve key HCFA management practices that we found to be lacking or inadequate. Today I would like to briefly discuss our findings from that report and our suggestions for strengthening HCFA's Y2K activities, describe

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<sup>1</sup>Medicare Computer Systems: Year 2000 Challenges Put Benefits and Services in Jeopardy (GAO/AIMD-98-284, September 28, 1998).

actions taken on those recommendations, and provide our perspective on where Medicare claims processing stands today. I will also provide an update on the status of state systems that support HCFA's Medicaid program.

Medicare Systems Remain At High Risk

As the nation's largest health care insurer, Medicare expects to process over a billion claims and pay \$288 billion in benefits annually by 2000. The consequences, then, of its systems' not being Year 2000 compliant could be enormous. We originally highlighted this concern in May 1997, making several recommendations for improvement.<sup>2</sup> In our report of last September we warned that although HCFA had made improvements in its Year 2000 management, serious challenges remained to be resolved in a short period of time. Specifically, we reported that less than a third of Medicare's mission-critical systems had been fully renovated, and none had been validated or implemented. Further, in terms of the agency's key management practices necessary to adequately direct and monitor its Year 2000 project, HCFA had not

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<sup>2</sup>Medicare Transaction System: Success Depends Upon Correcting Critical Managerial and Technical Weaknesses (GAO/AIMD-97-78, May 16, 1997).



- developed an overall schedule or critical path to identify and rank Y2K tasks to help ensure that they could be completed in a timely manner;
- implemented risk management processes necessary to highlight potential technical and managerial weaknesses that could impair project success;
- planned for or scheduled end-to-end testing to ensure that program-wide renovations would work as planned; or
- effectively managed its electronic data exchanges, thereby increasing the risk that Y2K errors would be transferred through data exchanges from one organization's computer systems to those of another.

OMB also had concerns. In its December 8, 1998, summary of Year 2000 progress reports of all agencies for the reporting quarter ending November 13, 1998, it concluded that while HCFA had made significant progress in renovating its internal and external systems, the agency remained a serious concern due to the remediation schedule of its external systems. OMB further stated that Medicare contractors would have to make an intensive, sustained effort to complete validation and implementation of their mission-critical systems by the governmentwide goal of March 31, 1999. OMB designated HHS as a tier 1 agency on its three-tiered rating scale since it had made insufficient progress in addressing the Year 2000 problem.

Our conclusions and recommendations to the HCFA Administrator reflected our concerns about the high level of risk and large number of tasks still facing HCFA. We reported that it was more critical than ever that HCFA have sound business continuity and contingency plans in place that could be implemented should systems failures occur. Our specific recommendations included that HCFA

- rank its remaining Year 2000 work on the basis of an integrated project schedule and ensure that all critical tasks are prioritized and completed in time to prevent unnecessary delays,
- develop a risk management process,
- define the scope of an end-to-end test of the claims process and develop plans and a schedule for conducting such a test,
- ensure that all external and internal systems' data exchanges have been identified and agreements signed among exchange partners, and
- accelerate the development of business continuity and contingency plans.

#### HCFA's Actions to Achieve Compliance in its Medicare Systems

HCFA has been responsive to our recommendations, and its top management is actively engaged in its Year 2000 program. HCFA's Administrator has made Year 2000 compliance the agency's top priority and has directed a number of actions to more effectively manage

this project. For example, HCFA has established a "war room" for real-time monitoring of Year 2000 renovation, testing, and implementation activities. In addition, the agency established seven contractor oversight teams to monitor progress. HCFA also strengthened its outreach efforts: on January 12, 1999, the Administrator sent individual letters to each of the 1.25 million Medicare providers in the United States, alerting them to take prompt Year 2000 action on their information and billing systems. Three days later the Administrator sent a letter to Congress, with assurances that HCFA is making progress and stressing that physicians, hospitals, and other providers must also meet the Y2K challenge. HCFA also offered to provide speakers in local congressional districts.

To more effectively identify and manage risks, HCFA is relying on multiple sources of information, including test reports, reports from its independent validation and verification (IV&V) contractors, and weekly status reports from its recently established contractor oversight teams. In addition, HCFA has stationed staff at critical contractor sites to assess the data being reported to them and to identify problems.

HCFA is also more effectively managing its electronic data exchanges. HCFA now reports having a complete data exchange inventory of nearly 8,000 internal exchanges and over 255,000 external data exchanges. HCFA also issued instructions to its contractors (carriers and fiscal intermediaries) to inform providers and suppliers that they must submit Medicare

claims in Year 2000-compliant data exchange format by April 5 of this year. The status of each of these data exchanges is being tracked by HCFA staff.

HCFA has also more clearly defined its testing procedures. It published additional testing guidance in November 1998 that provided a policy for external systems that requires multiple levels of testing for each system, including:

- Unit level testing: testing of the individual software component using test cases that exercise all component functionality. For the standard claims processing system, this includes full functional testing of claims processing policy and program integrity edits.
- Simulated future date testing: testing of the individual software component using tools to simulate that the date has been rolled forward.
- Compliance testing: testing in a fully Year 2000-compliant environment with real future dates to verify that the system is Year 2000 compliant.

HCFA also plans to perform end-to-end testing with its Year 2000-compliant test sites. These end-to-end tests are to include all internal systems and contractor systems; however, they will not include testing with banks and providers. Finally, HCFA has begun to use a Year 2000 analysis tool to measure testing thoroughness, and its IV&V contractor is assessing test adequacy on the external systems (e.g., test coverage and documentation).

The final area in which HCFA has demonstrated progress is developing business continuity and contingency plans to ensure that, no matter what, beneficiaries will receive care and providers will be paid. HCFA has established cross-organizational workgroups to develop contingency plans for the following core business functions: health plan and provider payment, eligibility and enrollment issues, program integrity, managed care, quality of care, litigation, and telecommunications. HCFA's draft plans document its business impact analysis; the contingency plans are expected to be completed by March 31 of this year, and testing of the plans by June 30.

#### Reported Status of HCFA's Mission-Critical Systems

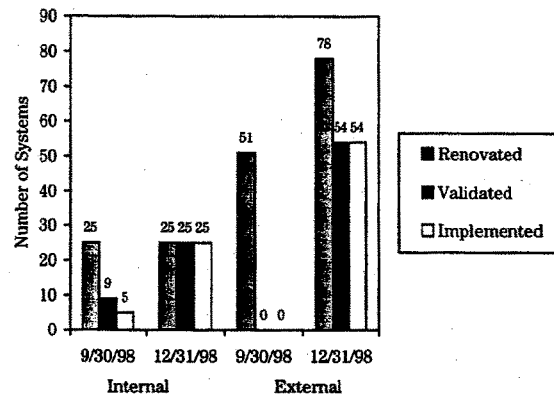
HCFA operates and maintains 25 internal mission-critical systems. HCFA also has 78 external mission-critical systems<sup>3</sup> operated by contractors throughout the country to process Medicare claims. These external systems include six standard processing systems and the "Common Working File." Each contractor relies on one of these standard systems

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<sup>3</sup>HHS reported 82 HCFA external mission-critical systems, however, 4 of these are due to be retired.

to process its claims, and adds its own front-end and back-end processing systems. The Common Working File is a set of databases located at nine sites that works with internal and external systems to authorize claims payments and determine beneficiary eligibility.

HCFA's reporting of its readiness for next January sounds quite positive as stated in the most recent HHS Y2K quarterly progress report to OMB. According to this report, dated February 10, as of December 31, 1998, all 25 of HCFA's internal mission-critical systems were reported to be compliant, as were 54 of the 78 external systems. Figure 1 shows HCFA's reported status, compared with what it reported on September 30, 1998.

Figure 1: Reported Status of HCFA's Mission-Critical Systems

Source: HCFA quarterly reports to HHS.

Reported Progress Is Highly Overstated

HCFA's reported progress on its external mission-critical systems is considerably overstated. In fact, none of the 54 systems reported compliant by HCFA was Year 2000 ready as of December 31, 1998. All 54 external systems that were reported as compliant had important associated qualifications (exceptions), some of them very significant. Such qualifications included a major standard system that failed to recognize "00" as a valid year, as well as 2000 as a leap year; it also included systems that were not fully future-date tested.

According to HCFA officials, they reported these systems as compliant because these qualifications were "minor problems" that should not take much time to address. This is at variance with the IV&V contractor's interpretation. More specifically, the IV&V contractor found that the qualifications reported by all systems contractors were critical, most requiring a major to moderate level of effort to resolve.

A specific example of a system reported as compliant with qualifications is the Florida standard system, used by 29 contractors. This system had one qualification that consisted of 22 test failures. The IV&V contractor characterized this failure experience as significant. HCFA reports that these failures were corrected with a January 29, 1999, software release. However, in a February 16, 1999, IV&V status report, Blue Cross of California—a user of the



Florida standard system—found that date test problems remained. In another example, the EDS MCS standard system that is used by 10 contractors had 25 qualifications; these included 9 problems that were not future-date tested. HCFA now reports that future-date testing of the January software release of the EDS MCS system is 92 percent complete.

As these examples illustrate, the systems are not yet Year 2000 compliant, and the 39 contractors that use these two standard systems likewise cannot be considered compliant. Further, according to the IV&V contractor, two critical qualifications associated with each of the standard systems affect all external contractor systems: (1) HCFA-supplied systems that contractors use in claims processing were delivered to them too late for required testing to be performed; and (2) the claims processing data centers' hardware, software, and telecommunications were not completely compliant.

The IV&V contractor acknowledges that Medicare claims processing systems have made progress toward Year 2000 compliance over the past year, yet the various qualifications inevitably mean that some renovation and a significant amount of retesting still needs to be accomplished before these systems can be considered compliant. To HCFA's credit, it issued a memorandum in early January requesting Medicare carriers and fiscal intermediaries to resolve these qualifications by March 31, the federal target date for Year 2000 compliance. The notice stated that Medicare systems with unresolved Y2K problems

affecting claims processing functions must be corrected, tested, and installed in production. As part of our ongoing work for the Senate Special Committee on Aging, we will be monitoring the resolution of these qualifications closely.

Other Critical Risks/Challenges That Remain

The February 16, 1999, report of HCFA's IV&V contractor stated that an integrated schedule that tracks all major internal systems activities needs to be established. It added that system-specific information—including time, test scheduling, and resource considerations—needs to be more fully developed in order to achieve a robust, trackable schedule. We agree. In fact, this is consistent with our previous recommendation that remaining Y2K work be ranked on the basis of a schedule that includes milestones for renovation and testing of all systems, and that it include time for end-to-end testing and development and testing of business continuity and contingency plans.<sup>4</sup> Such a schedule is even more important for the external systems because of their greater number, complexity, and interdependencies. HCFA still lacks an integrated schedule that identifies a critical path.

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<sup>4</sup>GAO/AIMD-98-284, September 28, 1998.

Without this, it will be difficult for HCFA management to identify important dependencies in this complex environment and to prioritize its remaining work in the time that remains. HCFA also lacks a formal risk management process—something to identify all risks and their interdependencies, assess their impact, establish time frames for mitigation and criteria for successful mitigation, and ensure that the criteria are followed. The one system that was intended to serve as its comprehensive risk management system does not contain current information, according to the IV&V contractor.

HCFA's systems—both internal and external—exchange data, both among themselves and with the Common Working File, other federal agencies, banks, and providers. Accordingly, it is important that HCFA ensure that Y2K-related errors will not be introduced into the Medicare program through these data exchanges. As of February 10, 1999, HCFA reported that over 6,000 of its 7,968 internal data exchanges were still not compliant, and that over 37,000 of its nearly 255,000 external data exchanges were not compliant.<sup>6</sup> To ensure that HCFA's internal and external systems are capable of exchanging data among themselves as

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<sup>6</sup>On February 23, 1999, the HCFA Administrator stated that she wanted us to note that the February 10, 1999, HHS quarterly report to OMB had a typographical error, and that the total number of internal data exchanges is 3,418 and that 309 of these are still not compliant.

well as with other federal agencies, banks, and providers, it is essential that HCFA take steps to resolve the remaining noncompliance of these data exchanges.

In yet another critical area, HCFA faces a significant amount of testing in 1999, since changes will continue to be made to its mission-critical systems to make them compliant. First, changes to resolve the existing qualifications will need to be retested. Second, testing must still take place with full production-level software. For example, the final software release of the Common Working File before 2000 is scheduled for late June; testing will therefore be needed after that. Third, legislatively mandated changes to software that will occur through June will need to be retested as well. HCFA plans to conduct these final tests of its systems between July 1 and November 1, 1999, then recertify all mission-critical systems as compliant without qualification or exception. These final tests will ultimately determine whether HCFA's mission-critical systems are indeed Year 2000 compliant. The late 1999 time frames associated with this testing represent a high degree of risk.

In addition to such individual systems testing, HCFA must also test its systems end-to-end to verify that defined sets of interrelated systems, which collectively support an organizational core business function, will work as intended. As mentioned, HCFA plans to perform this end-to-end testing with its Year 2000 test sites. These tests are to include all internal systems and contractor systems, but will not include testing with banks and providers.

HCFA has instructed its contractors that it is their responsibility to test with providers and financial institutions. Even excluding banks and providers, end-to-end testing of HCFA's internal and external systems is a massive undertaking that will need to be effectively planned and carried out. HCFA has not yet, however, developed a detailed end-to-end test plan that explains how these tests will be conducted or that provides a detailed schedule for conducting them.

A final aspect of testing concerns the independent testing contractor. The IV&V contractor's recent assessment of the independent testing contractor concluded that its strategy as currently stated "is high risk for providing effective independent testing" because of the limited number of internal systems to actually be independently tested: 8. This number was previously 22. Further, this testing will not be completed until August. The limited number of systems tested and the late completion date are not reassuring.

Given the magnitude of HCFA's Year 2000 problem and the many challenges that continue to face it, the development of contingency plans to ensure continuity of critical operations and business processes is absolutely critical. Therefore, HCFA must sustain its efforts to complete and test its agencywide business continuity and contingency plans by June 30. Another challenge for HCFA is monitoring the progress of the 62 separate business

continuity and contingency plans that will be submitted by its contractors. We will continue to monitor progress in this area.

Other issues that further complicate HCFA's Year 2000 challenge are the known and unknown contractor transitions that are to take place before January 1, 2000, and the unknown status of the managed care organizations serving Medicare beneficiaries. As reported in HHS' quarterly submission to OMB, HCFA is concerned about the possibility of Medicare contractors, fiscal intermediaries, and carriers leaving the program and notifying HCFA after June 1999. If this were to occur, the workload would have to be transferred to another contractor whose Year 2000 compliance status may not be known. According to both contractor and HCFA officials, it requires 6-12 months to transfer the claims processing workload from one contractor to another. At present, HCFA must transition the work of three carriers that are leaving the program.

HCFA is requiring the 386 managed care organizations currently serving 6.6 million Medicare beneficiaries to certify their systems as Year 2000 compliant by this April 15. These certifications may be qualified, just as with the fee-for-service contractors. If this were to occur, a formal recertification would have to be performed later this year. Until this initial certification is performed, it will remain unknown whether the managed care organizations' systems are Year 2000 compliant.

To summarize HCFA's Medicare situation, the agency and its contractors have made progress in addressing issues that we have raised. However, their reported progress vastly overstates the facts. Some renovation and a significant amount of testing must still be performed this year. Until HCFA completes its planned recertification between July and November 1999, the final status of the agency's Year 2000 compliance will be unknown. Given the considerable amount of remaining work that HCFA faces, it is crucial that development and testing of HCFA's business continuity and contingency plans move forward rapidly if we are to avoid interruption of Medicare claims processing next year.

#### Medicaid Systems Are At Risk

In fiscal year 1997, Medicaid—a joint federal-state program supported by HCFA and administered by the states—provided about \$160 billion to millions of recipients. Medicaid provides health coverage for 36 million low-income people, including over 17 million children. Its beneficiaries also include elderly, blind, and disabled individuals.

In surveying states' Year 2000 status last summer,<sup>6</sup> we found that many systems were at risk and much work remained to ensure the continuation of services. The states' reported compliance rate for Medicaid systems was only about 16 percent, and 18 states reported that they had completed renovating one quarter or fewer of their Medicaid claims processing systems. These 18 states had Medicaid expenditures of about \$40 billion in fiscal year 1997—one-quarter of total Medicaid expenditures nationwide, covering about 9.5 million recipients.

Since last summer, HCFA has administered two state self-reporting surveys and conducted several on-site visits, finding that overall state Medicaid systems status has improved little. For example, HCFA reported in November 1998 that Medicaid systems had shown some progress in renovation, but that the number of states reporting completion of this phase had actually decreased compared with the July/August 1998 data that were reported to us by the states. It found, further, that 11 states' Medicaid systems were still reported to be 25 percent or less renovated, and about half of the states were 50 percent or less renovated. Only five

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<sup>6</sup>Year 2000 Computing Crisis: Readiness of State Automated Systems to Support Federal Welfare Programs (GAO/AIMD-99-28, November 6, 1998). We sent a survey to the 50 states, the District of Columbia, and three territories (Guam, Puerto Rico, and the Virgin Islands). All but one of the 54 entities surveyed responded.



states—Arkansas, California, Idaho, Illinois, and Iowa—reported their Medicaid systems to be 100 percent renovated. Thus, while OMB guidelines target completion of systems renovation by September 1998, states' self reported data to HCFA showed that about 90 percent of states had not completed renovation for the Medicaid programs as of November 1998.

To obtain more reliable Year 2000 state Medicaid status information, HCFA hired a contractor to conduct independent verification and validation of states' systems. As an initial effort, the contractor and HCFA distributed a survey to all states to ascertain background and Year 2000 status information. However, based on more recent information from on-site visits, the IV&V project leader said that the survey data were not as reliable as HCFA had expected because states tended to overstate their progress. As a result, HCFA has instead decided to rely on on-site contractor visits to ascertain accurate Medicaid systems status.

HCFA reported in HHS' February 1999 quarterly report to OMB that based on seven site visits, some of the dates that states had reported to us last July/August had slipped, underscoring the need for on-site visits to secure more accurate information. For example, according to HCFA, while four states appeared to have made some progress in the 6 months since our survey, the status of three states remained the same. Further, HCFA found that

one state's Medicaid eligibility system was not as far along as the state had reported. As of February 17, 1999, HCFA told us that it had visited 14 states and that half of those states had shown some improvement. Thus, HCFA and the IV&V contractor plan to make on-site visits to all 50 states and the District of Columbia by the end of this April. For states considered at risk, HCFA will conduct second site visits between May and September 1999 and, if necessary, third visits between October and December. The later visits will emphasize contingency planning to help the states ensure continuity of program operations in the event of systems failures.

#### CURRENT STATUS OF STATE SYSTEMS SUPPORTING ACF PROGRAMS IS UNKNOWN

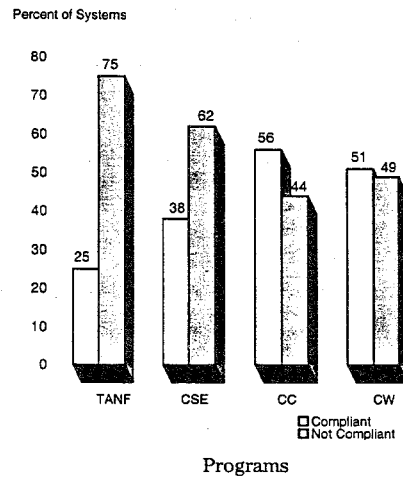
Key state-administered programs that could be affected by Y2K include Temporary Assistance for Needy Families (TANF), Child Support Enforcement (CSE), Child Care (CC), and Child Welfare (CW) programs; these programs—critical to the health and well being of the needy—are overseen by HHS' ACF. These programs focus on providing benefits to economically needy families with children who lack financial support from one or both parents because of death, absence, incapacity, or unemployment. In fiscal year 1997, federal and state agencies spent just under \$14 billion on cash and work-based assistance. Of this total, almost \$8 billion was federal money, while just over \$6 billion was state-funded. These programs served almost 8 million recipients as of September 1998.

Failure to complete Year 2000 conversion activities for these programs could cause billions of dollars in benefits payments to fail to reach our nation's needy families. Those newly approved for benefits could face an inability to be automatically added to the recipient file; eligibility for new applicants might not be able to be determined in a timely fashion; eligible recipients could be denied benefits; and payments could be underpaid, overpaid, or delayed.

As figure 2 illustrates, our November 1998 report on the Year 2000 readiness of state systems that support these programs found that, although progress varied, many systems were at risk and much work remained to ensure continuation of services.<sup>7</sup>

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<sup>7</sup>GAO/AIMD-99-28, November 6, 1998.

Figure 2: Percentage of Systems Reported Compliant – July/August 1998.

Following our report, OMB implemented a requirement that federal oversight agencies include the status of state human services systems in quarterly Year 2000 progress reports. Specifically, it requested that federal agencies describe actions to help ensure that federally

supported, state-run programs will be able to provide services and benefits.<sup>8</sup> OMB has further asked that agencies report the date when each state's systems will be Year 2000 compliant, and provide information on any significant difficulties that states are encountering.

ACF is currently surveying the states to determine the status of TANF, child support enforcement, child care, and child welfare systems, however, it does not have current information on states' systems. In response to OMB's requirement to provide updated state systems status in the quarterly Y2K progress reports, ACF sent letters and surveys to state Chief Information Officers asking for such information, requesting that states to return the survey by January 31, 1999. As of February 16, 1999, ACF had received responses from 27 states. Further, according to HHS' Year 2000 program manager, the information provided by the states raised more questions than answers; some states did not answer all questions or complete the survey for all systems.

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<sup>8</sup>OMB Memorandum for the Heads of Selected Agencies, Revised Reporting Guidance on Year 2000 Efforts, January 26, 1999. The state programs included were Food Stamps, Medical Assistance, Unemployment Insurance, TANF, Child Support Enforcement, WIC, Low Income Home Energy Assistance, Child Nutrition, Child Care, and Child Welfare.

ACF is now proposing on-site reviews of state systems for TANF and the child support enforcement, child welfare, and child care programs in all 50 states. ACF sees these reviews as enhancing the available information concerning states' Year 2000 readiness and providing a vehicle through which the agency can provide states with technical assistance. ACF is considering developing a process similar to the one being used by HCFA, or possibly working with HCFA in gathering information.

#### STATUS OF PSC's PAYMENT MANAGEMENT SYSTEM

HHS' PSC provides grants payments and cash management services through its Payment Management System (PMS) to all HHS agencies and to 10 other federal agencies on a fee-for-service basis. PSC is organized into three business units, referred to as "services". Each service is responsible for a particular line of business.

- The Administrative Operations Service's responsibilities include property management; distribution of pharmaceuticals; medical and dental supplies; information systems support; and technical information services.
- The Financial Management Service is responsible for providing financial services such as grants payments and cash management.

- The Human Resources Service is responsible for providing a full range of human resources services such as personnel operations and payroll.

A key PSC activity is providing electronic funding and cash management service to organizations receiving HHS grants and contracts, as well as grants from other federal agencies. Its list of federal customers includes the Departments of Agriculture, Energy, Interior, Labor; and the Federal Emergency Management Agency, the Corporation for National Service, the National Aeronautics and Space Administration, the Social Security Administration, the Agency for International Development, and the U.S. Information Agency. According to PSC, its customer environment also includes 12 HHS operating divisions, and about 20,000 recipient organizations:

- 2,900 universities and educational organizations;
- 7,500 hospitals, health, and nonprofit organizations;
- 3,800 state government agencies; and
- 6,300 cross-servicing recipients.

These recipients receive about \$165 billion annually in federal grants payments for a wide range of activities such as school lunch programs, highway construction, and health care.

Delays in Year 2000 Readiness of PMS

PSC has identified eight mission critical systems spanning the diversity of its administrative, financial, and human resources activities:

- Commissioned Corps Personnel and Payroll System,
- Civilian Payroll and Personnel System,
- Automated Payment and Adjustment System,
- Debt Collection System,
- 5ESS Telephone Switch,
- PSC LAN Servers,
- Payment Management System, and the
- CORE Accounting System.

Of PSC's eight mission-critical systems, the Payment Management System is one of the most critical. However, this system is not yet compliant, and it is unclear when it will be.

Developed for the purpose of creating a central system for paying most federal assistance grants, block grants, and contracts, the main purpose of PMS is to serve as a fiscal intermediary between awarding agencies and the recipients of grants and contracts. PSC uses PMS to process billions of dollars in payments to recipient organizations—over half of all federal grant payments. Indeed, it is PMS that makes available to states approximately \$96 billion in Medicaid payments annually.



PMS was originally created 30 years ago, and has been expanded and modified several times since, according to PSC. In 1995, PSC began a project to replace PMS with a new, state-of-the-art automated system known as the "Reengineered Payment Management System". It was anticipated that this new system would be Year 2000 compliant and operational by October 1997.

Since its inception, the planned system replacement has encountered problems and, as a result, is still not operational. For example, according to a December 1997 PSC status report to HHS, the original contractor for the replacement system failed to maintain the agreed-upon schedule and therefore PSC decided to hire another contractor to implement the system. With the new contractor, the estimated date to complete the new system was revised to October 1, 1998, which was not met.

Problems appear to continue to plague the new system replacement effort. For example, in its biweekly status report for the period ending February 12, 1999, the contractor reports that portions of the implementation strategy are in jeopardy due to problems with database extracts from the existing system. The contractor is concerned that database extracts, if transitioned to the new system, "may contain hidden surprises."

Despite the new system's problems, the Director of the Division of Payment Management told us that he expects the new system to be operational and Year 2000 compliant by March 31, 1999. Nevertheless, because PSC was concerned that it was at risk of not having a fully tested compliant system, it contracted in January 1999 for an independent consulting firm to conduct an analysis of whether PSC should rely on the new replacement system as its Year 2000 solution or, instead, rely on remediation and testing of the existing payment management system. According to the Division Director, this analysis was due on February 23. The Division Director stated that, as of this date, he had not received the final report. According to the firm contracted by PSC, whichever option PSC pursues, program management and independent verification and validation support will be required for the successful completion of the project.

#### SOME BIOMEDICAL EQUIPMENT STATUS INFORMATION AVAILABLE THROUGH FDA

The question of whether medical devices such as magnetic resonance imaging (MRI) systems, x-ray machines, pacemakers, and cardiac monitoring equipment can be counted on to work reliably on and after January 1, 2000, is critical to our nation's health care. To the extent that biomedical equipment uses embedded computer chips and software, it is

vulnerable to the Y2K problem.<sup>9</sup> Such vulnerability carries with it possible safety risks. This could range from the more benign—such as incorrect formatting of a printout—to the most serious—such as incorrect operation of equipment with the potential to decrease patient safety. The degree of risk depends on the role the equipment plays in the patient's care.

Responsibility for oversight and regulation of medical devices, including the impact of the Y2K problem, lies with FDA. It provides information from biomedical equipment manufacturers through an Internet World Wide Web site. Last September,<sup>10</sup> we reported that FDA had a disappointing response rate from biomedical equipment manufacturers to its request for compliance information. The FDA biomedical equipment database also lacked detailed information on the make and model of compliant equipment. Further, FDA did not require manufacturers to submit test results certifying compliance. Therefore, the adequacy of manufacturers' corrections of noncompliant equipment could not be assured.

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<sup>9</sup>Biomedical equipment refers both to medical devices regulated by FDA, and scientific and research instruments, which are not subject to FDA regulation.

<sup>10</sup>Year 2000 Computing Crisis: Compliance Status of Many Biomedical Equipment Items Still Unknown (GAO/AIMD-98-240, September 18, 1998).

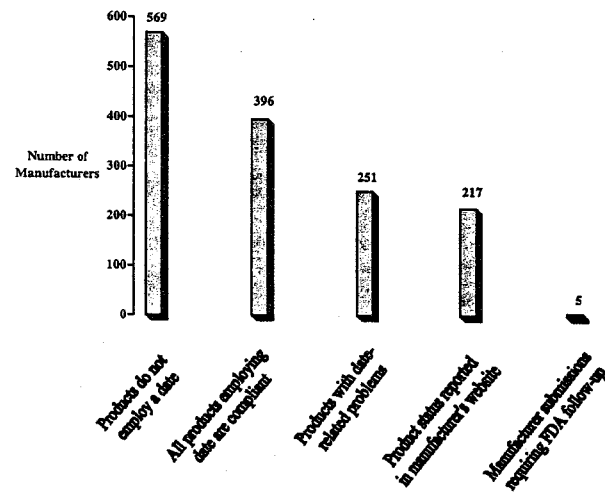
To address these issues, we made recommendations to the Secretaries of HHS and Veterans Affairs (VA)—a key stakeholder in determining the potential effects of the century change on biomedical equipment—to determine what actions, if any, should be taken regarding manufacturers that have not provided compliance information. We also recommended that the departments (1) work jointly to develop a single data clearinghouse to provide compliance information to all users of biomedical equipment, and (2) take prudent steps to review test results for critical care/life support biomedical equipment, especially equipment once determined to be noncompliant but now deemed compliant—and make those results publicly available through FDA's central data clearinghouse.

HHS and VA agreed with our recommendation to develop a single data clearinghouse. FDA, in conjunction with VA, has established the Federal Y2K Biomedical Equipment Clearinghouse; it is publicly accessible through the Internet site and contains information on biomedical equipment compliance submitted to FDA by manufacturers, as well as information gathered by VA and the Department of Defense as part of their Year 2000 compliance projects. FDA also plans to include detailed information on the make and model of equipment reported as compliant.

In its February 10, 1999, quarterly submission to OMB, HHS reported that as of January 12, 1999, about three quarters (1,438) of 1,932 biomedical equipment manufacturers identified

by FDA had submitted data to the clearinghouse. As shown in figure 3, about 40 percent of the manufacturers have products that do not employ a date, while about 17 percent reported equipment having date-related problems.

Figure 3: Biomedical Compliance Status Information Reported  
To FDA by Manufacturers as of January 12, 1999



Note: Total number of manufacturers = 1,438.

Source: Department of Health and Human Services.

Last September we also reported that most manufacturers citing noncompliant products listed incorrect display of date and/or time as the Y2K problem.<sup>11</sup> According to VA, these cases may not present a risk to patient safety because health care providers, such as physicians and nurses, can work around the problem. Of more serious concern are situations in which devices depend on date calculations, which can be incorrect. One manufacturer cited an example of a product used for planning delivery of radiation treatment using a radioactive isotope as the source. An error in calculating the strength of the radiation source on the day of treatment could result in a dose that is too high or too low, which could have an adverse effect on the patient.<sup>12</sup>

HHS reports that FDA will continue to explore ways of obtaining compliance information from manufacturers who have not yet replied. In response to our recommendation that FDA and VA review test results of manufacturers' compliance certifications, VA—deferring to HHS—stated that it did not have the legislative or regulatory authority to do this. HHS, for its part, said that it lacked the available resources to undertake such a review and, further, that

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<sup>11</sup>GAO/AIMD-98-240, September 18, 1998.

<sup>12</sup>Year 2000 Computing Crisis: Leadership Needed to Collect and Disseminate Critical Biomedical Equipment Information (GAO/T-AIMD-98-310, September 24, 1998).

insufficient time remained to complete such reviews before 2000. We believe that if HHS lacks sufficient resources to review manufacturers' test results, it may want to solicit the help of federal health care providers and professional associations. Finally, HHS stated that submission of appropriate certifications of compliance is sufficient to ensure that the certifying manufacturers are in compliance. We disagree. Through independent reviews of manufacturers' test results, users of medical devices are provided with a greater level of confidence that the devices are indeed Year 2000 compliant.

Mr. Chairman, this completes my statement. I would be pleased to respond to any questions that you or other members of this Subcommittee may have at this time.

(511739)



Mr. HORN. I thank the gentleman. I note that the chairman of the Subcommittee on Technology of the House Committee on Science has joined us and before we begin the questioning, if the gentlewoman from Maryland would like to make an opening statement.

Mrs. MORELLA. Thank you, Mr. Chairman. You invited me to participate in this hearing and I appreciate it very much. It is part of our ongoing series of meetings that we have had, and briefings, to make sure that all agencies recognize the urgency and the time limits on correcting the year 2000 computer problem, computer glitch, mother of all computer glitches. Certainly my hope is that given what we understand from the General Accounting Office about the serious difficulties that HCFA is experiencing with Y2K that we can spur the agency to undertake the dramatic actions that are needed to ensure that the population who receive over \$170 billion annually of Medicare and Medicaid assistance, that their elderly, disabled and indigent benefits continue uninterrupted.

Last September GAO reported that "HCFA and its contractors were severely behind schedule in the repairing, testing, in the implementing of its mission critical systems that support Medicare." And the General Accounting Office also noted that "due to the complexity and magnitude of the problem and HCFA's late start, its progress in repairing mission critical Medicare systems is far behind schedule."

I know that HCFA disputes some of the General Accounting Office's conclusions. I know that both HHS and HCFA have demonstrated a great deal of progress in this last quarter, so I look forward to continuing the dialog and hearing our other witnesses and questioning Mr. Willemssen.

Thank you very much, Mr. Chairman.

Mr. HORN. I thank the gentlewoman. We will begin with the questioning for 5 minutes alternating between the majority and minority side. There are not too many questions to ask the General Accounting Office. We will then move to panel two and have Mr. Willemssen rejoin the panel at the end and have some more questioning.

Let me yield the chairman's time to the vice chairman of the committee, Mrs. Biggert, the gentlewoman from Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Mr. Willemssen, in the Department's quarterly report to the Office of Management and Budget, the Health Care Financing Administration [HCFA], reported that 54 of its 78 external mission critical systems were year 2000 compliant. However, in your testimony you said that none of these 54 external mission critical systems are completely compliant because they have important qualifications or exceptions associated with them. Do you think that these qualifications are important and if so, why?

Mr. WILLEMSEN. Yes, we do think the qualifications are important. The essence of making systems Y2K compliant is in part making sure that they are forward date tested so that dates such as January 1, 2000, February 29, 2000 will indeed work as intended and therefore within that testing it is important that those kinds of issues have been fully resolved. At this point they have not. Also, as of December 31st, the evidence we saw was that all

of these 54 had important qualifications requiring some amount of effort in order to resolve. If indeed they involved minor effort, I would have expected that they would have been fully resolved and tested over the last 2 months. In fact they have not. They continue to be outstanding. So although some resolution has taken place, they still all need to be tested. HCFA is making excellent progress but not as much progress as is reflected in those statistics.

Mrs. BIGGERT. In your opinion then would you say that HCFA is trying to gain the system, trying to improve its grade by overstating the Y2K compliance?

Mr. WILLEMSSEN. I would say that HCFA is under tremendous pressure to do the best job possible on Y2K. The Administrator has made it the top priority. There are a lot of people at HCFA working very hard, as are many contractors. I guess it is subject to interpretation what they saw with the February 16th independent verification and validation contractor's report that they could possibly consider the system substantially compliant, and therefore close enough, let's call that compliant.

We differ with that view. We thought those exceptions were significant enough that those systems should not be considered compliant at that point in time.

Mrs. BIGGERT. Thank you. Then turning to the Health and Human Services Payment Management System which processes about \$170 billion a year in Federal grant payments, of concern is that HHS has been trying to develop a new Payment Management System since 1995, as you mentioned, but with little success, but it is also still renovating the current system to try to make it Y2K compliant. Is the current system year 2000 compliant now?

Mr. WILLEMSSEN. No. We have not seen the test results for the existing system demonstrating that it is indeed compliant, and I believe HHS will be talking about that a little bit today about whether they are going to rely on the existing system or the replacement system. But the evidence that we have seen is that no, that it is not compliant at this point in time.

Mrs. BIGGERT. How about by March 31, 1999 which is the President's deadline?

Mr. WILLEMSSEN. In discussions over the last few days with some of the key officials within HHS, at least one official maintained that he thought it would be compliant by March 31st. I believe HHS may be amending that in testimony today to possibly being a few months later.

Mrs. BIGGERT. Since—how about the new system, will it be ready by March 31st then? If it is, what are they going to do with the old system?

Mr. WILLEMSSEN. This is an issue that several agencies have encountered. The difference with HHS is that this is a bit late to be encountering this, and in some cases agencies decide on a dual track approach. That is, let's continue with the replacement system but with the risk involved with that replacement system of being delivered so late, we need to go into the existing system just in case and remediate and test that one so in the event the replacement does not get in in time, we have this one to fall back on. We would not disagree with that kind of approach overall.

Mrs. BIGGERT. OK. How much then is the Department spending to develop the new system and to fix the existing system to make it Y2K compliant?

Mr. WILLEMSSEN. We do not have up-to-date information on the cost that we have gathered over the last couple of days, but we can supply the information for the record.

Mr. HORN. We will insert that at this point in the record.  
[The information referred to follows:]

April 12, 1999

**Summary of HHS's Payment Management System Redesign Costs<sup>1</sup>**

Based on a March 22, 1999, report supplied by HHS' Division of Payment Management (DPM), DPM reported that the:

- Original estimated cost = \$4.60 million
- Current cost = \$6.87 million

The amount over the original estimate = \$ 2.27 million.

**Source:** HHS, Program Support Center, DPM.

**Note:** These cost figures have not been audited or reviewed by GAO.

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<sup>1</sup> As of March 22, 1999.

Mrs. BIGGERT. Thank you.

Mr. HORN. I defer the questioning to Mr. Turner, the ranking member of this subcommittee.

Mr. TURNER. Thank you, Mr. Chairman.

I would like to inquire a little bit into—HCFA has a unique problem in that it deals with a lot of folks that it doesn't have direct control over, such as its contractors and the States. What is the hammer in terms of legal control that HCFA has over its independent contractors to be sure that they get their systems in compliance, or are we just hoping that they will?

Mr. WILLEMSSEN. I think it is an excellent point that you raise. It is one of the unique challenges that HCFA faces that many other organizations don't, in that they have to apply tremendous pressure on the contractors to get these systems compliant.

One of the excellent steps that they have taken is hiring the independent verification and validation contractor to go in and help them make sure that the systems are compliant, and I think that contractor has shown some definite value over the last few months.

But I think the legal issues, I won't pretend to know them inside and out, but there are apparently some legal impediments that the Administrator may be more attuned to speak toward. I know the administration has put forward some contractor reform legislation that it believes will in part assist them in that area.

Mr. TURNER. So we really don't know if a contractor who is supposed to be sending out these payments to all of these providers, if they are not ready on January 1st and their systems go down, we don't really know if the Federal Government and HCFA can hold them legally responsible for those noncompliant acts or whether we can hold them liable for damages? Do we even know what we can do if a contractor does not get in a situation where they are compliant?

Mr. WILLEMSSEN. With that legal question I would prefer to defer to the Administrator since I do not know the legal intricacies that well in terms of what the Federal Government can and cannot do.

Mr. TURNER. Another similar issue is the one that you described regarding the new system that was going to handle the payment management system, the computer that apparently was acquired and put in place or attempted to be put in place I believe you said in 1997. Now they have decided well, that is not Y2K compliant so we are going to stay with the old system through 2000. Who provided that system, and do we know if there were representations made at the time to HCFA that was going to be Y2K compliant?

Mr. WILLEMSSEN. The documentation that we got from HHS indicated that Y2K would not be an issue once the new system went in. Among the problems—I don't have the contractor names at my disposal—but among the issues that came up is HHS decided to go with another contractor after the initial contractor because of some of the problems that they were experiencing and the initial contractor not being able to meet the schedule. So for implementation of the system, HHS went with a second contractor to do that.

Mr. TURNER. To put in the new system?

Mr. WILLEMSSEN. Yes, to implement that new system.

Mr. TURNER. Do we know if that contractor represented that that system they were providing to HCFA was going to be Y2K compliant?

Mr. WILLEMSSEN. We can look—once we get the documents from HHS, we can look at the contractual language to see if indeed the standard Y2K compliance language was in there. The timing of that would be—it may or may not have been. We will look at that for you, though. There was some standard governmentwide Y2K compliance language that was pulled together over a year ago now, so it would be interesting in terms of that particular contract to see if that language has been put in or potentially an amendment put into the contract subsequent to its initial award.

Mr. TURNER. I would certainly hope as late a date as 1997, 1998, when all of this occurred, that that language would have been in there.

Mr. WILLEMSSEN. 1997, from a governmentwide perspective generally speaking that language may not have existed. It was still being debated during most of that year.

Mr. TURNER. We are having a lot of hearings on Y2K liability, and I think sometimes as we discuss that subject we fail to remember that the Federal Government itself may be a potential plaintiff making claims against contractors who have failed in a legal duty to provide systems that are Y2K compliant.

If you looked at HCFA's serious problems from the perspective of those contractors, when we say that there are serious noncompliance problems, give us an example of something you found that you are calling a serious noncompliant problem?

Mr. WILLEMSSEN. One thing in looking at the seriousness of the issue is the tremendous complexity of the entire claims processing process and it involves so many players with so many individual systems and so many data exchanges that you have to look at it as a building block type of approach. Each of those individual components we first have to get compliant. And once we have ascended that mountain, then we have to look at it from an end to end process involving multiple systems and data flows and making sure that that process end to end is compliant, and that is one of the primary reasons for our concern about the high risk at HCFA. It is not that they are not doing what they can, it is that there is a relatively limited amount of time left to get it all done.

Mr. TURNER. Thank you, Mr. Chairman.

Mr. HORN. Thank you. I now yield 5 minutes to the gentlewoman from Maryland for questioning.

Mrs. MORELLA. Thank you, Mr. Chairman.

We rely very heavily on the General Accounting Office and we thank you very much for doing the kind of reporting and the investigative work that helps us move forward. I can't think of anything more important than Medicare and Medicaid and then the whole medical field when it comes to compliance of Y2K.

I am kind of—I had a concern very much about those many contractors who are out there and how you pull it together. But I am also concerned as I look at the testimony or the statement that came, the GAO report, that deals with Medicaid specifically, the fact that HCFA distributed a survey to all of the States to ascertain their background on Y2K compliance, and they then decided

they would rely on because they didn't feel that this was accurate enough or complete enough, rely on onsite contractor visits to ascertain accurate Medicaid systems status. They then go on to say that some States appeared to make progress in the 6 months since the survey that had been made, but many of the others—four States made progress, three States remained the same. This says something about the monitoring and a whole question about what more needs to be done, how do we get a handle on this because again of the end to end and the many connections that have to be made for total compliance and reliability. I ask you—would you like to comment on it?

Mr. WILLEMSSEN. Yes. Medicaid systems overall are of great concern. When we issued our report last year on State human services systems, the compliance rate that we saw for Medicaid systems nationwide was only about 16 percent of all of those Medicaid systems self reported to us by States. So that definitely was of concern.

HCFA has taken some excellent steps since then. Part of that being hiring a contractor to go out and do on-site visits to see if the States are making the progress that they need to. HCFA's intent is to go to all States and then for those States deemed at risk, to have followup visits.

We think those are excellent steps that need to be taken, but overall Medicaid has a long ways to go. These are not simple systems that are going to need to be made compliant. HCFA is taking some aggressive steps to try to assist, and again they are to be commended for doing that.

Mrs. MORELLA. So basically what HCFA has done is hired contractors to go—

Mr. WILLEMSSEN. To see how the States are doing.

Mrs. MORELLA. Do you feel that HCFA is going to be able to meet that March 31st deadline for compliance before the end-to-end testing begins, in all candor?

Mr. WILLEMSSEN. I doubt that they will be able to make the March 31st deadline from the perspective that we would see all those systems renovated and tested and certified compliant. I don't think that they will be able to make the March 31st deadline.

Mrs. MORELLA. What do you think the consequences will be and what do you think we should do about it?

Mr. WILLEMSSEN. The consequences of that are that the additional—as you mentioned the end to end testing, the period for that will get squeezed tighter; and, therefore, the thoroughness and depth of that testing will not be as much. HCFA has made an excellent commitment toward the need to put together contingency plans so that they have backup.

Mrs. MORELLA. I would assume that contingency plans are already there and have been worked on. Am I assuming too much? Do they not have contingency plans?

Mr. WILLEMSSEN. They are aggressively working on those plans currently.

Mrs. MORELLA. Which means that they do not have them yet?

Mr. WILLEMSSEN. Their timetable I believe is to have them done and tested I believe by approximately the end of June, so that will give them some time. From a governmentwide perspective, that is

not out of the realm of what the deadline should be for doing that. That is pretty good.

Mrs. MORELLA. Do you see something more that Congress can do to encourage, forge, require? What else can we do? These are systems that so many people statistically, as we have mentioned, are affected by?

Mr. WILLEMSSEN. One, it is important to continue to have this kind of oversight on a critical program such as this to keep up to date on what kind of progress and impediments there are for Medicare.

Second, I think you should also ask the question of HCFA, what do you need from us? What is getting in your way? Whether it is some of the legal issues that we discussed earlier, that contractor reform is necessary because we can't get the contractors to do what we tell them if indeed that is the case. I think that is a very useful question to ask of HCFA also.

Mrs. MORELLA. Thank you, Mr. Willemssen. My time is up.

Mr. HORN. Thank you very much. I now yield to the ranking member of the House Science Subcommittee on Technology, Mr. Gordon of Tennessee.

Mr. GORDON. Thank you, Mr. Chairman.

Welcome, Mr. Willemssen. I want to thank you and the General Accounting Office for the important role that you have played in the oversight and watchdog of all of these agencies. As I think you just mentioned, the more oversight, the more we can talk about this and bring it out, the better off we are.

Let me ask you, do you feel that Congress has provided adequate funds or enough funds for HCFA to maximize their effort to correct this problem?

Mr. WILLEMSSEN. I am not aware at HCFA or actually any other agency where they have made requests for funds for Y2K and those requests have been denied.

So again an extremely useful question to ask of HCFA, do you need more resources, more funds because at many of the hearings that I have testified at, that is a common question asked of many agencies. If you need more resources, please tell us and we will do what we can.

As you know, last year the Congress passed a \$3.35 billion emergency fund so that agencies such as HCFA and others could tap into that fund if indeed they needed those additional resources.

Mr. GORDON. Thank you. I will ask that question later.

Let me ask you also, Chairman Horn's report card I think has been helpful in trying to raise awareness of the problem. If you had your own report card and you were grading the focus and the attention that HCFA is placing on this problem, what grade would you give?

Mr. WILLEMSSEN. If we were grading in terms of the current focus of what HCFA is placing on this problem, given that the Administrator has named it her No. 1 priority and given that many of her staff are working on it, it is hard to give less than a top grade given where the priority stands within HCFA and given the kind of progress they have made since our September report.

Mr. GORDON. Thank you, Mr. Chairman.



Mr. HORN. We are now going to bring forward the second panel. We are going to swear them in and then Mr. Gordon will have the honor of introducing the members.

[Witnesses sworn.]

Mr. HORN. The clerk will note that both witnesses have affirmed the oath, and I yield to Mr. Gordon to introduce the panel.

Mr. GORDON. Thank you, Mr. Chairman. We have all sat through a number of hearings with well-informed witnesses, but you don't really know them, I don't think that their testimony is as real sometimes, so I want you to get to know these two folks a little bit better.

First, John Callahan. Dr. John Callahan and I first met almost 20 years ago when he served as a very Yankee chief of staff to a very southern Senator and even with that impediment he did a very good job partly because there are a lot of lawyers around here, but not too many doctors or PhDs.

Mr. HORN. Will the gentleman yield. When I hear that I am reminded of the great line of William White, who covered the Senate for the New York Times, who said, "The Senate is the South's revenge on the North for having lost the Civil War."

Mr. GORDON. Well, John did a good job there. And then he went over to Assistant Secretary in HHS. When there became an opening at Social Security, they needed somebody to fill in, and John went over and did a very competent job of being the acting Director of Social Security; and now he has become at HHS an Assistant Secretary and John, I am glad you are here.

And Nancy-Ann DeParle is a good friend from home, an old friend from home. And let me tell you about Nancy-Ann. She grew up with her mother in Rockwood, TN, and Rockwood is just about as tough as the name sounds. Nancy-Ann was fortunate enough to get a scholarship to go to the University of Tennessee and I think UT feels it was a good investment because Nancy-Ann became the first woman student body president of their 20,000-plus campus in its almost 200-year history, and became a Rhodes Scholar and went on to Yale, graduated with honors from law school and turned down offers all around the country to come home, and I am glad she did.

After she got home and she was trying to pay off some bills, our Governor asked her to be his commissioner for human services, and Nancy-Ann really didn't have any background in the health care area, but she knew how to get things done. So she became the youngest and the shortest member of Governor Border's cabinet, instituted a number of new information systems that tremendously reduced the error rate in food stamps and the welfare program, went back to the private sector and then Leon Panetta gave her a call and said we hope you will come to OMB to head up our health care area. She did, did a very good job and then was appointed the Director of HCFA.

And it was interesting at the time she got that appointment Chairman Morella and I had our first hearing on the Y2K problem, and so I wrote Nancy and said we just had this hearing, and I think there is a potential for a real problem and you ought to check HCFA and see what is being done.

She called me later, somewhat frustrated that virtually nothing had been done. I don't think there is a conversation that we have had since then that we haven't discussed her focus. And with all of them, the new responsibilities that Congress has placed on HCFA, Nancy-Ann has made this her first priority. I know that daily she works at it and worries about it and tries to get a handle on it.

I am glad that she is here to give us her experiences, and I have to say that really Nancy-Ann to me epitomizes all that is best about the American dream in this country.

Mr. HORN. We thank you for that delightful introduction and we thank the witnesses for being with us. However you would like to proceed, please do.

**STATEMENTS OF NANCY-ANN DEPARLE, ADMINISTRATOR, HEALTH CARE FINANCING ADMINISTRATION; AND JOHN J. CALLAHAN, CHIEF INFORMATION OFFICER, DEPARTMENT OF HEALTH AND HUMAN SERVICES**

Ms. DEPARLE. Thank you, Chairman Horn, Congressman Turner, and distinguished committee members. We appreciate the opportunity to be here today to talk about the progress of the Health Care Financing Administration in meeting the year 2000 challenge. I have with me Dr. Gary Christoph who I brought in from Los Alamos National Laboratory a year ago to lead our information technology efforts.

We have a great deal to do, Mr. Chairman, but we are making good progress and we will be ready well before January 1, 2000. Our main job is financing the health care for Medicare beneficiaries. We can assure that our claims processing and payment systems work and that doctors and hospital bills will get paid, but continuity of care depends on much more. Doctors, hospitals and other providers must ensure that they are also ready. We are therefore engaging in an unprecedented outreach effort to help our partners reach their responsibilities.

Just 2 months ago I personally wrote each and every one of the 1.3 million health care providers in the country who work in the Medicare program to make sure that they were aware of this problem and to give them information about what they needed to do to be fixing it, and we will also be doing special outreach to critical access providers and Medicare sole providers to make sure that they are ready.

We have aggressively attacked our part of the problem, and I have to say to Congressman Gordon, it seems like it has been about 10 years since we had that conversation, but you are exactly right. It is my No. 1 priority. We have to continue to retest systems and refine contingency plans, but I do think that we have come a long way since I became Administrator.

To get to this point, we had to make some difficult decisions, including delaying implementation of some of the Balanced Budget Act provisions and I want to thank the committee for your leadership and support in helping us make those decisions. We did reach a significant milestone in December when we reported that all 25 internal mission critical systems are now compliant, and those include the systems, Congresswoman Biggert, that pay Medicaid

claims and managed care claims. They are the systems under our direct control. And, Mr. Chairman, you and I had a conversation about the complexity of this, and you remembered from your experience on the Senate side how Medicare was set up with all of the different contractors around the country, and that has been a big part of our problem, as has been noted this morning.

One of the first things that I did when I got to HCFA was sit down with Joel Willemssen and Gene Dodaro from GAO to ask them what I needed to do, and they made a couple of recommendations. One was to amend the contracts that we have with our contractors to require them to be compliant by the end of December of last year. That turned out to be more difficult than it sounds. The contractors initially said no, they were not going to sign it. They testified to the Ways and Means Committee that they didn't think that I had the authority to require that, and, in fact, under the contracts that Medicare has that are different than any other government contracts, there have been questions about the authority that the Secretary and I have to hold them compliant for things like this. But we did in fact succeed in getting a contract amendment. And by the end of December 31, 1998 we had certified that 78 of the external mission critical systems had been renovated, in other words the 50 million lines of code had been repaired, and 54 had been self-certified as compliant. That meant that they had completed three levels of testing by December 31, 1998.

Let me stress that self-certification does not mean that our work is finished. It does mean that the software has been renovated and tested and that those systems were able to process and pay claims with future dates.

We have greatly appreciated, and I have personally benefited greatly from, the diligence of GAO in advising us on this project. But as you heard this morning, there is a difference of opinion between us and our colleagues at GAO on the exact nature and extent of the qualifications that we received with the self-certifications from the contractors.

And I want to note that there has been some discussion of our December submission and I brought with me just the pages that relate to this, from a letter to you in early February that contained 4 or 5 pages of what the qualifications were on the 24 contractors that we did not accept. The GAO believes that all of the qualifications should have been removed before certifications were accepted. We believe that the qualifications that we allowed were minor and don't go to the heart of the claims processing, and as I said, we outlined each and every contractor that we thought had a problem that was significant enough that we were not going to accept their certification.

I directed our staff to be very conservative. With all respect to you, Mr. Chairman, I care about your grade, but I care much more about making sure that the systems are renovated and tested properly and there is no disruption in services. I was not looking to increase my grade. I was looking to be as conservative as we could be. We went on-site at all of these places. We didn't just look at the paper qualifications. And we believe that these contractors have made the kind of progress that we needed to note to you at that time.

We are continuing to closely monitor this situation and we have established a war room in our Baltimore headquarters. We have special teams of people who have been asked to leave their homes and work at these contractors so that I know, frankly, on day-to-day basis what is actually happening on the ground. And we are developing comprehensive business continuity and contingency plans in case any unforeseen problems arise. We are through our third draft of our proposed plan, and we plan to have that done in June.

The GAO and our IV&V contractor have identified essential work that remains for all of our systems to be millennium-ready, and we agree with the GAO that one of the most critical tasks is testing our many data exchanges to make sure that all of our interdependent systems function together properly.

We also have to continue end to end testing from the point of claim submission to the point of sending a payment instruction to a bank and printing a notice to a beneficiary. And we have to continue working with providers, and this is the area where Congress can help us the most.

After I wrote a letter to each and every one of the providers, I also sent every Member of Congress a copy of that letter and asked for you to help us. We have speakers available to go out to your districts and meet with providers. We will do whatever will help. We are also meeting with providers here and with the trade associations, and we want to get out across the country.

The good news is that we have given providers a deadline by when they have to submit compliant claims, and many of them are already doing so. About 98 percent of the submitters who submit on the part B side are submitting compliant claims right now. And on the part A side, from December to January, it increased by about 30 percent. We are at 58 percent there.

So that is the good news, but we also are going beyond current industry practice on testing and everything else. We are now instructing our contractors across the country to begin testing with those providers around the country who want to submit future date claims to test that.

We hope that will build provider confidence. If they want to test claims, they can do so. For especially critical systems, we are going another level beyond the GAO's guidance by having the independent contractor perform independent tests in isolated future date environments.

We also have to finish, test and refine our contingency plans and we are doing that in accordance with the GAO's advice.

In short, Mr. Chairman, we have much more to do and we fully expect that there may be bumps in the road, but I want to assure you that we are committed to doing everything we have to do. This is our No. 1 priority. All of this would have been a lot harder without your leadership, Mr. Chairman, and without Congress' support, and I want to thank you for that as well as for the hard work that our colleagues at GAO continue to do on our behalf, and I am happy to answer your questions.

[The prepared statement of Ms. DeParle follows:]



Statement of  
NANCY-ANN DEPARLE  
ADMINISTRATOR  
HEALTH CARE FINANCING ADMINISTRATION  
Before the  
HOUSE GOVERNMENT REFORM  
SUBCOMMITTEE ON MANAGEMENT,  
INFORMATION, & TECHNOLOGY  
on the  
YEAR 2000 CHALLENGE

February 26, 1999



**Testimony of Nancy-Ann DeParle, Administrator  
Health Care Financing Administration  
on the  
YEAR 2000 CHALLENGE  
before the  
House Government Reform  
Subcommittee on Government Management,  
Information, & Technology  
February 26, 1999**

Chairman Horn, Congressman Turner, distinguished committee members, thank you for inviting me here today to discuss my highest priority -- the Year 2000 computer challenge. I am happy to report today that, despite serious concerns about the Health Care Financing Administration's (HCFA) ability to meet this challenge, we are making remarkable progress. In fact, I am confident that HCFA's own Year 2000 systems issues will be resolved well before January 1, 2000.

Our foremost concern has been, and continues to be, ensuring that our more than 70 million Medicare, Medicaid and Children's Health Insurance Program (CHIP) beneficiaries continue to receive the health care services they need. We are aggressively addressing Year 2000 issues in those systems over which we have responsibility. And we are engaging in an unprecedented outreach effort to raise awareness and provide information to those other parts of the health care system where we have little authority and control. I want to personally assure beneficiaries that the care they have come to expect from our programs will continue throughout the millennium transition.

Although our Year 2000 work is not yet complete, we have already accomplished a great deal.

- All 25 of our internal mission-critical systems are now certified as Year 2000 compliant,

three months ahead of the government-wide deadline of March 31, 1999.

- ▶ All 78 of our external mission-critical claim processing systems that our claims processing contractors use to pay bills are renovated. Of these, 54 have been self-certified as compliant. Our independent verification and validation (IV&V) expert contractor has rated 17 systems as highly compliant and will require only a minimal effort to resolve any remaining issues; another 39 will require a moderate level of effort. We will recertify all mission-critical systems before October 1999.
- ▶ And 27 of our 55 non-mission critical internal systems are certified as compliant.

We recognize the importance of our programs to our beneficiaries and have put together a vigorous Year 2000 program, with extensive testing and independent review. We have asked our IV&V contractor to set rigorous performance measures and be hard in their judgment of our contractors' progress.

As mentioned above, 54 of our external contractors' claims processing systems are self-certified as compliant. We and our IV&V contractor have noted that this does not mean our entire claims processing environment is completely ready. It does mean that the software for these systems has been renovated and made compliant, and that the systems have been proven, by extensive testing, to be able to pay claims with future dates. These renovated systems are currently implemented for claims processing. Self-certification of these systems' compliance was a critical milestone in becoming Year 2000 ready.

We acknowledge that not every piece of hardware, nor every system that does not go to the heart of claims processing is compliant. However, for 54 of the 78 systems, we are confident that the qualifications are not substantial enough to warrant a non-compliant status. Our IV&V contractor agrees with us.

For the remainder of 1999, we will continue to renovate, test, and retest our systems. We are ahead of schedule on our internal mission-critical systems, and are well on our way to meeting the Federal government's deadline for our external systems. We will certainly be ready before January 1, 2000.

I want to be clear about what HCFA can and cannot do. We are responsible for financing health care for our beneficiaries. We can assure that our claims processing and payment systems will work and that doctors and hospital bills will be paid. Ensuring continuity of care for our beneficiaries, however, goes well beyond processing payments successfully. It depends on a host of other entities ensuring that their own systems are compliant, such as States, doctors, hospitals, and other service providers. And it depends on the continued operation of pharmaceutical and medical supply chains, as well as basic utility and telecommunication services. HCFA does not have the authority, ability, or resources to step in and fix systems for others, such as States and providers. And that leads to a rather substantial concern that we need the help of Congress and others to fully address.



**HCFA's Year 2000 Efforts**

There is no question that we have faced an uphill battle in achieving Year 2000 compliance. A number of key steps are getting us where we need to be. They include:

- ▶ **Building a "War Room"** in our Baltimore headquarters dedicated solely to tracking Year 2000 efforts on a daily basis not only within our own agency, but also with our partners across the country. I can now find out what is happening on any of our essential Year 2000 projects at a moment's notice. That is something I could not do last year.
- ▶ **Establishing contractor oversight teams** specifically responsible for closely monitoring and managing Year 2000 work for all contractors involved in processing Medicare claims. These oversight teams include staff who are on-site overseeing and helping contractors who most need assistance in meeting the March 31, 1999, deadline. They also provide timely information on the status of contractors' progress to the War Room.
- ▶ **Negotiating amendments** to contracts with more than 60 claims processing contractors. These amendments established, for the first time, clear requirements that contractors must meet for their information systems to be Year 2000 compliant.
- ▶ **Hiring AverStar, Inc.**, formerly Intermetrics, Inc., an IV&V contractor to provide assurance that our Year 2000 work is done right. They have helped us refine our renovation processes, audit our testing plans and processes, as well as measure our progress.
- ▶ **Hiring Seta Corporation**, another contractor providing independent testing of especially critical systems, to further ensure that the Year 2000 work on these systems has been done correctly. This additional testing goes beyond that described by GAO.

- ▶ **Helping States** by hiring another IV&V contractor, TRW, to visit every state and validate their Year 2000 progress. TRW is giving us direct information regarding the status of States' renovation efforts on critical areas, such as Medicaid enrollment and claims processing systems. We also are providing the States with whatever information and insights we can.
- ▶ **Helping providers** learn what they must do to prepare for the new millennium through an unprecedented provider outreach campaign. This broad effort includes mailings, publications, an Internet site, a speakers' bureau, a number of seminars and conferences, and a wide range of other efforts.

#### **Scope of HCFA's Year 2000 Workload**

The Year 2000 especially affects the programs HCFA administers because of our extensive reliance on multiple computer systems. More than 150 different systems are used by HCFA in administering the Medicare program. About 100 of these systems are considered mission-critical. These systems are responsible for establishing beneficiary eligibility and making payments to providers, plans, and States.

Medicare is the most automated health care payer in the country. We process nearly one billion claims annually, most electronically. In fact, 97 percent of inpatient hospital and other Medicare Part A claims and 81 percent of physician and other Medicare Part B claims are submitted electronically to the Medicare claims processing contractors. Most claims are processed to payment by entirely electronic means. This high level of electronic billing has allowed us to

achieve significant operating efficiency and cost savings. This reliance on automated systems, however, has made the Year 2000 computer fix a major challenge. Critical dates in computerized claims processing include the date a beneficiary became eligible, the date a patient was admitted or discharged from a hospital, the date a wheelchair rental began, or the date an enrollee entered a managed care plan.

Renovating all these systems has been complicated. Each system used by our programs and our 60-plus claims processing contractors, as well as interfaces with State Medicaid programs, banking institutions and some 1.3 million providers has to be thoroughly reviewed and renovated by those responsible for each particular system. Our renovation standards require that systems be tested individually, as well as with the exchanges they perform with other partners.

To fix the Medicare systems alone, we have had to renovate some 49 million lines of internal and external systems code to find date-sensitive processes. We have had to repair all of our Medicare-specific software so it will work with new versions of vendor-supplied software. We have had to update the operating systems that drive the hardware we use with millennium compliant versions. We also have had to test and upgrade deficient operational hardware, including our telecommunications equipment and software. And we must assure that all data exchanges with thousands of our partners will function properly.

#### **Contingency Planning**

Although we fully intend to have our own systems ready long before January 1, 2000, we know

we must be prepared in case any unanticipated problems arise. We are undertaking an extensive effort to develop contingency plans for all our mission-critical business processes. Our top priorities in developing these plans are to:

- ▶ Process claims so as to be able to pay providers promptly;
- ▶ Prevent payment errors and potential fraud and abuse;
- ▶ Ensure quality of care; and
- ▶ Enroll beneficiaries.

Contingency planning is an Agency-wide effort with active participation of all of our most senior executives. We are closely following the GAO's advice on contingency planning which they outlined in their August 1998 guidance, *Year 2000 Business Continuity and Contingency Planning* and in their September 1998 report, *Medicare Computer Systems --Year 2000 Challenges Put Benefits and Services in Jeopardy*.

We recently completed the second phase of the contingency planning process by reviewing 280 Medicare business processes, performing risk and impact analyses, and identifying the potential impact of mission-critical failures. We are now in the third phase in which we will clarify and document our contingency plans and implementation modes, define events that will trigger use of the plans, as well as establish and train implementation teams should the need arise to execute the plans.

**Protecting Beneficiaries**

I must stress that our concern must always be focused first and foremost on protecting the beneficiaries and their continued access to care. Providers who fail to fix their own systems, and thus are unable to bill us for services, are strictly prohibited from billing beneficiaries.

Beneficiaries are legally protected from liability for bills that Medicare would ordinarily pay, even if the provider is not Year 2000 compliant. To safeguard beneficiaries in the new millennium, we will provide them with a phone number to call to report any inappropriate billings they receive from providers or any difficulties they encounter in accessing care. Our beneficiaries are counting on us. Their health care needs will continue regardless of what day it is.

**Concern for States and Providers**

It is not enough for HCFA alone to be ready for the Year 2000. Health care provider computers and systems must be Year 2000 compliant in order for providers to be able to generate and submit bills to us. State computers and systems also must be Year 2000 ready for Medicaid and CHIP to continue uninterrupted payment of services. Many States and providers will meet the Year 2000 challenge on time. However, monitoring by us and the General Accounting Office (GAO) indicates that some States and providers could well fail. This is the first time any of us have had to deal with such a problem, and we at HCFA are eager to share the lessons we have learned along the way. We are providing assistance to the extent that we are able. But that likely will not be enough. This matter is of urgent concern, and literally grows in importance with each passing day.

Our own progress in meeting the Year 2000 challenge is due in large part to the outstanding effort and commitment of staff throughout HCFA and at our Medicare contractors. We have been greatly aided by wise counsel from the GAO, and especially by the expert IV&V contractors we hired, based on the GAO's recommendations, to ensure that our Year 2000 work is done correctly. And, importantly, we could not have come so far so quickly without the timely support and funding that Congress has provided.

**Providers' Progress**

Providers must ready their own systems for the Year 2000 in a timely manner if the health care system is to meet the millennium challenge completely and successfully. One of the first steps, and perhaps the easiest, is changing the format of Medicare claims to allow for 8-digit date fields. Our electronic claims monitoring indicates that over 98 percent of Part B claims submitters (either physicians/suppliers or their billing agents) are submitting claims with 8-digit date fields. Fifty-eight percent of Part A submitters (hospitals and other institutions or their billing agents) that submit claims electronically are also using the 8-digit fields.

It is essential that all providers address the Year 2000 issue. Thus, we recently announced that we would require all claims submitters to start using the 8-digit date format by April 5, 1999. Claims received on or after that date without the new format will not be accepted. That does not mean that providers need to be fully compliant by April 5, but it does mean that we want to be assured that they have started to prepare their systems by, at least, taking this first step.

We recognize that providers should be able to test whether Year 2000-compliant claims can be accepted by our claims processing contractors. We are now instructing our claims processing contractors to begin testing with those providers throughout the country who want to submit future-dated claims.

We are concerned that providers address other Year 2000 issues as well, not just billing and claims system issues. To ensure continued patient care, providers must take appropriate Year 2000 remediation steps to prepare biomedical devices, as well as clinical and other systems.

**Provider Outreach.**

Due to the critical need for providers to become Year 2000 compliant, we have launched a broad outreach campaign. Last month, in an unprecedented step, we mailed a letter to all 1.3 million providers serving our beneficiaries explaining the gravity of the Year 2000 problem and providing a checklist for what must be done to achieve compliance.

Our provider outreach campaign features a special Year 2000 Internet site, [www.hcfa.gov/Y2K](http://www.hcfa.gov/Y2K), which includes some of the basic steps that can be taken by a Medicare provider or supplier, such as:

- Preparing an inventory of hardware and software programs and identifying everything that is mission-critical to their business operations;
- Assessing the Year 2000 readiness of their inventory as well as options for upgrading or replacing systems, if necessary;

- Updating or replacing systems important to business operations, if necessary;
- Testing existing and newly purchased systems and software and their interfaces; and
- Developing business continuity plans for unexpected problems.

Our Internet site also includes links to other essential sites for providers, such as the Food and Drug Administration's Internet site on medical device compliance.

We have developed a speakers' bureau with staff trained to make presentations and answer questions on Year 2000 issues around the country. We are leading the Health Care Sector of the President's Council on Year 2000 Conversion, which includes working closely with provider trade associations and public sector health partners to raise awareness of the millennium issue and encourage all providers to become compliant. And our claims processing contractors are offering providers Year 2000 compliant electronic billing software for free or at minimal cost.

I was pleased that some provider associations have recently announced their intention to assess the Year 2000 readiness of their membership and to step-up educational efforts on the critical nature of this problem. This is an essential undertaking. Quite simply, Year 2000 compliance cannot be a one-way street. Providers also must meet this challenge head on, or risk not being able to receive prompt payment from Medicare, Medicaid, or virtually any other insurer.

We welcome Congress' help in making providers aware of the Year 2000 and energizing them to address their part of the problem. I invite you to help us identify opportunities to get the Year 2000 message across and encourage you to stress the importance of this issue when you meet



with providers. As I mentioned previously, we have established a special Year 2000 speakers' bureau with staff around the country prepared to speak and offer guidance. You may want to have them join you when you meet with providers, and let others know that they are available.

#### **States' Progress**

Our concern for States is as great as our concern for providers. For both, we do not have the authority, ability, or resources to step in and fix their systems for them. Our ten regional offices are monitoring the status of each State's remediation effort. We also have an expert IV&V contractor, TRW, to assist us in conducting on-site visits in every State to provide advice and validate assessments. This allows us to maintain an accurate picture of each State's progress. We have already done on-site visits in 16 States and the District of Columbia and expect to visit the remaining States by the end of April. The preliminary reports confirm earlier work by the GAO which strongly suggests that some States will not be ready on time.

We have asked all Medicaid and CHIP Directors to:

- Report the status of their Year 2000 compliance efforts;
- Document contingency plans for systems that may not be compliant; and
- Provide updates to HCFA's regional offices on States' progress.

It is each State's responsibility to take the steps it believes are appropriate to meet the needs of its Medicaid and CHIP beneficiaries. Our primary role is to assess, as best we can, each State's progress and to provide guidance. While we do not have the authority, ability, or resources to fix

State systems, we can and do want to help. In addition to furnishing the services of TRW, we have developed technical assistance documents, and held regional meetings and workshops for States on how to develop contingency plans. We know that States and Congress share our goal of protecting all our beneficiaries throughout the millennium transition.

**Budgetary Needs**

The Year 2000 problem is not static. We are obligated to perform rigorous testing because of the extent of our reliance on information systems. Efforts to solve one element of the problem often uncover other problems. This makes it challenging to determine our budgetary requirements. As you know, we previously have had to request additional funding and redirect existing funding to meet these changing demands.

In fiscal year 1998, we received \$107.1 million in funding for millennium activities. This funding included a \$15 million appropriation; an additional \$30 million that was transferred from other agency projects; \$20 million in redesignated funds originally appropriated for systems transitions; and \$42.1 million made available by the Department of Health and Human Services (HHS) through the Secretary's one percent transfer authority. Through very careful financial management and a keen recognition of the importance of the Year 2000 effort, we actually obligated approximately \$148 million in fiscal year 1998 on Year 2000 activities: \$130 million on external systems and \$18 million on internal systems.

Thanks to your support in the fiscal year 1999 appropriations process we are making significant

progress toward obtaining the funding needed to support all of our Year 2000 efforts. We received \$82.5 million in our appropriation for this year. The Office of Management and Budget (OMB), with Congressional concurrence, transferred an additional \$205.1 million from the Year 2000 emergency fund. This funding provides a total of \$287.6 million to support our Year 2000 efforts in fiscal year 1999. We plan to use FY 1999, as well as FY 2000, funding to increase our contingency planning efforts by developing, testing, and rehearsing contingency plans.

The President's Budget request for FY 2000 includes an additional \$150 million for our Year 2000 effort. In addition to funding our contingency planning efforts, a large portion of this funding will support outreach, continuing external systems remediation, and increases in billing and communications activities at our contractors. Increased public awareness of the Year 2000 and concern about potential problems, coupled with possible disruptions in claims processing, may increase the number and cost of paper and duplicate claims, the level of inquiries from beneficiaries and providers, as well as related printing and postage costs. This funding will help us and our contractors meet these anticipated challenges.

It is important to note that because our systems are highly automated and the majority of our processes are completed electronically, we are performing far more rigorous Year 2000 testing than many businesses. Many businesses are not testing their systems for future dates and they will not know with certainty if their systems will operate in the Year 2000. HCFA will. Our testing regimen is far more rigorous than the industry standard, with multiple layers of testing, including regression testing, testing in a simulated Year 2000 environment, and testing our entire systems in

an actual Year 2000 environment.

In addition to the extensive tests performed by those who actually maintain the system, we also are requiring independent testing of our most critical systems and additional oversight by an IV&V contractor. This coming year we expect to perform extensive validation and recertification of these critical systems to ensure that changes made during 1999 do not affect our Year 2000 renovations. Although this additional testing and validation significantly increases the time required for, and the cost of, certifying the Medicare systems, we know that we simply cannot afford to fail and are doing everything within our power to ensure that we do not.

Our systems are not only complex in their own right, they also require extensive data exchanges with more than one million partners, such as providers, banks, and vendors. We must guarantee that all of our renovated systems work with all of these partners. And so we must conduct data exchange tests with the provider community to ensure that we can exchange the transactions required for electronic commerce.

#### **Conclusion**

We have made remarkable progress in our Year 2000 compliance effort and have taken critical steps to ensure that all of our systems will be ready for the new millennium. There is still a great deal of work to be done, but we now feel that we are making adequate progress. We will continue in 1999 to work, test and retest our systems. But I must reiterate our concern with the progress of some States and providers in meeting their own Year 2000 challenges. We are

committed to providing all the assistance we can, but in some cases that may not be enough. We all share a common goal of guaranteeing that our systems and programs function in the new millennium. I thank you for your attention to this essential issue, and I am happy to answer any questions you may have.

Mr. HORN. I will turn to Mr. Callahan.

Mr. CALLAHAN. Thank you, Chairman Horn, Congressman Turner, and other distinguished members of the subcommittee.

I am pleased to appear before you today to testify about the Department's efforts to make its payment management system Y2K compliant. I am also accompanied today by Dr. Neil Stillman, who is the Deputy CIO of the Department, and Jeanette Clay, who is the Chief Information Officer for the Program Support Center.

I would like to echo Nancy-Ann DeParle's statement about the committee. Clearly sometimes even though these sessions may appear to be a bit painful, clearly when we reach January 1, 2000 and we succeed, in no small measure a good deal of the credit will go to you personally and to the members of your committee for asking us to be as diligent as we can be on the Y2K effort.

The payment management system, which is the subject of the hearing today, is run by the Program Support Center of the Department, not by HCFA; it is run by the Program Support Center. This serves 20,000 grantees across the Nation and it is a historically sound and successful grants payment system. Indeed, in its more than 30 years of operation, it has only been down for one-half day during the blizzard of 1996.

I will say this, since not many people know about the payment management system. It serves 20,000 grantees. It makes 260,000 payments a year or about 1,000 payments a day. \$165 billion a year goes through that system, and what happens in this system is States, for example, with regard to their grants which go through the system, draw down grants daily and most of the other grantees draw down their grant allocations every 2 weeks. In essence, it is a just in time grant payment system. This system, as it currently operates, saves the Federal Government \$60 million a year as a result of adhering to the Cash Management Improvement Act.

But as with any businesslike process, the Department of Health and Human Services is committed to making continuous improvements in the payment management system. That is why we engaged beginning in 1994 in the process of developing as a business solution the fourth major system development of this system since its inception in 1969. Yet in this particular case of reengineering, obviously we have to be fully cognizant of the need to make a new payments management system Y2K compliant.

Therefore, in November 1998 we followed a parallel track of remediating the older legacy code, the current payment management system, to be year 2000 compliant as a contingency while at the same time continuing on a business solution to develop a fourth generation rebuild of the payment management system.

Obviously given the decision at that time to look into following a dual track, we obtained the expert advice of the Avistar Corp. to assess the risk of completing the new system development, the fourth system rebuild of testing, the testing and implementation of the current system, the remediation of the legacy code with an eye toward achieving a low risk Y2K compliant payment management product in the shortest possible time. The report has been delivered to us by the Avistar Corp. this week. We will provide this to the committee in its entirety.

Based on that recent report that we have received from the Avistar Corp., we plan to proceed immediately with the testing and implementation of the renovated legacy based payment management system. We expect this system to be Y2K compliant; that is, renovated, remediated, tested and implemented by June 1999.

At the same time, and this again comes from the recommendation of the Avistar report, outside of this development effort, and not to complicate this decision, we will devote additional staff and resources to achieve the goal of having in place hopefully before the end of the calendar year a fourth generation Y2K reengineered PMS system. But I will emphasize to the committee we will not follow that second track and in any way that would jeopardize getting at the fastest possible date a Y2K compliant payment management system.

We would hope to achieve obviously the best possible outcome of having two Y2K compliant payment management systems that could be available for operation in the year 2000 and at some point when we have a fully operational Y2K reengineered payment management system, we will operate that in place of the current system.

With regard to contingency planning, the Program Support Center, as is the case with all of our agencies, including HCFA, have supplied—at least I think most of them are up to their second drafts of their business continuity in their contingency plans, and we will be testing and implementing those contingency plans throughout the year. We believe that the contingency plan that is put forward to us is imminently practicable on the part of the Program Support Center and that the plans will ensure that the 20,000 grantees that we now service across the government, including HHS, will receive the Federal funds that they are due for their prior year and fiscal year 2000 appropriations.

We pledge to you on behalf of the Secretary, the Deputy Secretary and myself and the Program Support Center that our customers, our grant customers, will be paid in full and on time. You have our word on that.

Thank you, and I would be happy to answer any questions that you may wish to pose to me.

[The prepared statement of Mr. Callahan follows:]



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

TESTIMONY OF  
JOHN J. CALLAHAN  
ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET  
AND  
CHIEF INFORMATION OFFICER  
DEPARTMENT OF HEALTH AND HUMAN SERVICES

BEFORE  
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND  
TECHNOLOGY

GOVERNMENT REFORM AND OVERSIGHT COMMITTEE  
U.S. HOUSE OF REPRESENTATIVES

REGARDING THE YEAR 2000 DATE ISSUE

FEBRUARY 26, 1999



### INTRODUCTION

Good morning. I am John Callahan, Assistant Secretary of the Department of Health and Human Services for Management and Budget (ASMB) and Chief Information Officer (CIO). I am pleased to appear before this Subcommittee to provide you with a report on the accomplishments and the challenges faced by the Department of Health and Human Services (HHS) in assuring that our systems are Millennium compliant. I offer my comments on behalf of the Department and the Program Support Center (PSC).

The Secretary, the Deputy Secretary, and I have declared the Year 2000 date issue to be our highest information technology priority. We have taken and will continue to take strong actions to ensure that HHS information systems are Year 2000 compliant.

We have involved all parts of our organization, including staff with expertise in information systems, budget, human resources, and acquisition management in solving the Year 2000 problem. No matter what else we do and what other initiatives we undertake, we must ensure that our ability to accomplish the Department's mission is not impaired by the Y2K problem.

For this reason, we established December 31, 1998 as our internal deadline for Year 2000 compliance of mission critical systems intentionally setting it 3 months ahead of the official government-wide deadline of March 31, 1999. This was done in order to provide a full year of operations in which to detect and remedy any adverse interactions among

HHS systems and those of our many service partners, including other Federal agencies, states and local governments, tribes, and contractors. As of January 31, 1999, most of our mission critical systems were Y2K compliant.

#### **HHS's YEAR 2000 EFFORT**

To meet our Year 2000 responsibilities, we have taken a series of strong administrative actions. We have encouraged aggressive reallocation of funds, where necessary, to meet Year 2000 deadlines; we have established direct reporting lines between staff working on year 2000 activities and the Operating Division (OPDIV) Chief Information Officers. Each OPDIV CIO is responsible for regular reporting on Year 2000 efforts directly to the OPDIV head and the Department's Chief Information Officer until Year 2000 date compliance is achieved.

HHS has also taken action to retain, re-employ, and attract qualified information technology professionals, using both employment and contracting authorities. On March 31, 1998, HHS received Department-wide personnel authorities from the Office of Personnel Management (OPM) to waive the pay and retirement reduction for re-employed military and civilian retirees who return to work on Y2K remediation. To date, the Health Care Financing Administration has used the waiver authority to reemploy forty-one annuitants and the Program Support Center has hired one annuitant.

HHS agencies collect a tremendous amount of information that requires data exchanges. The Department has inventoried our data exchanges and contacted our service partners to emphasize the importance of assuring Year 2000 compliance. HHS is working with the National Association of State Information Resource Executives (NASIRE) and others to assure a coordinated response. On April 22, 1998, HHS provided a listing of State interfaces to NASIRE for its review of completeness and accuracy, and we will update this listing monthly until all of our State interfaces are compliant. HHS continues to update the listing on the GSA web site for NASIRE review. In addition to data exchanges with States, HHS systems also exchange data with other federal agencies, local governments, Medicare contractors and fiscal intermediaries, private insurance companies, universities, banks, and drug manufacturers.

In addition, HHS is requiring all of its operating divisions to conduct thorough testing and independent verification and validation of its renovated systems. We also know there is a possibility that, try as we might, some systems may not be fully compliant in time. Consequently, all of our Operating Divisions have submitted initial business continuity and contingency plans to the Department. These plans will be finalized and tested throughout 1999 to provide us with the operational policies needed to permit business continuity in the event of system failure.

**THE PAYMENT MANAGEMENT SYSTEM BACKGROUND**

The Division of Payment Management (DPM), of the Program Support Center (PSC), operates the Payment Management System (PMS) which provides centralized electronic funding and cash management service to all organizations receiving HHS grants. Besides making automated payments, DPM monitors funds in the hands of recipients, provides debt management services such as debt collection and serves as a customer service intermediary between grant recipients and grant awarding agencies.

The Payment Management System (PMS) is a historically sound and successful system that provides grant payment services which include the expeditious flow of cash and corresponding disbursement data between awarding agencies and grant recipients. HHS has over 30 years experience in paying grants on a centralized/consolidated basis and in developing and maintaining systems to support this function. In the 1960s NIH centralized its payments for all of its grant. In 1975 the operation was transferred to the Office of the Secretary and began paying grants for all the components of HHS, and in the 1989 HHS began paying grants for other Federal agencies. This operation has proven extremely reliable, efficient and cost effective, realizing significant savings due to economies of scale. Indeed, it was down only one half day in recent history due to a blizzard during 1996.

HHS is now a recognized leader in the providing funds to recipients of federal grants on a just-in-time basis. The PMS supports organizations funded by ten other federal agencies and 42 different subagencies. In FY 1998 the system made 260,000 payments totaling \$165 billion to 20,000 grantees. The PMS can receive automated or manual payment requests, edit them for accuracy and content, batch them for forwarding to the Federal Reserve Bank for payment, and record the transaction to the appropriate general ledger accounts.

The current Payment Management System was implemented in 1984. Major enhancements have been implemented, such as providing the capability for grantees to request funds and obtain information about their account balances electronically via their PC, and allowing the grantees to report expenditures electronically, thereby reducing the administrative burden on the grantees. Being committed to good business practices and to improving and reengineering our systems to provide better customer service, in 1994 we initiated a business review of the PMS Legacy system resulting in a recommendation for a major reengineering effort to modernize the PMS. This system development effort, the fourth major PMS redesign in 30 years, was identified as mission critical for Y2K compliance purposes.

The actual programming of the re-engineered PMS began in January of 1998, with a planned operational date of December 1998. As work progressed, DPM management became concerned about potential slippage in the schedule. Therefore, in order to ensure

Y2K compliance, we began to remediate the Legacy system code of the existing PMS. We, therefore, proceeded on a parallel track, remediating the legacy code while continuing to develop the new PMS.

#### **Y2K ASSESSMENT OF THE PAYMENT MANAGEMENT SYSTEM**

My office in conjunction with PSC initiated expedited Y2K compliance assessment activity to review PMS alternatives against the government-wide March 31 Y2K compliance deadlines imposed by OMB. To accomplish this, we sought expert outside advice to assess the risk and schedule for completing development of the new PMS versus testing and implementing the legacy remediated code.

The PMS is undergoing a major re-engineering; major development deliveries have been completed; and testing and Y2K certification activities are still pending. The Re-engineered PMS introduces additional functionality not available with the Legacy PMS, in particular a Web-based interface and improved tracking and reporting features. The Legacy PMS has been Y2K renovated, but has not yet been validated or IV&V certified.

Currently, based on the findings of an independent study neither the Legacy nor the Re-engineered PMS can be certified as Y2K compliant by March 31, 1999. Our lowest risk alternative is recommended as priority testing and implementation of the remediated Legacy system. Our secondary initiative will be to continue development of the new

generation PMS with the goal of its implementation prior to January 1, 2000. This strategy is now being implemented by the PSC. This decision has the full backing of the PSC leadership, me, Deputy Secretary Kevin Thurm, and Secretary Donna Shalala.

We will report back to the Committee monthly on the status of our PMS Y2K testing and IV&V certification efforts. It is our expectation that we will have the Legacy system validated and implemented by June 1999. We would further hope to have a compliant version of the newly developed PMS prior to year's end.

This Department believes we have thoroughly analyzed and evaluated the options for Y2K compliance of PMS, and we have chosen the lowest risk alternative, a remediated Legacy system that will yield rapid PMS Y2K compliance.

#### **BUSINESS CONTINUITY AND CONTINGENCY AND DAY 1 PLANNING**

The PSC has also developed a business continuity and contingency plan for the critical processes of PMS. This plan documents action items required should there be a Y2K problem and provides for testing of the contingency actions. This document will be shared with our federal customers. We have been using the PSC quarterly technical bulletin (Quickdraw) to keep our 20,000 recipients informed on Y2K issues and are fully prepared to make payments to our recipients on time when the year 2000 arrives.

Although we are confident that our efforts to ensure that PMS is Y2K compliant and that transactions across the end-to-end business process will be successfully executed at the century roll-over, we have also developed plans to ensure business continuity in the event of an unforeseen system failure. The end-to-end process includes a number of critical resources in addition to the Payment Management System. The other key components include: the systems at the grant-awarding agencies which transmit data on new awards or modifications to awards that are the input to PMS; the NIH/CIT Data Center on which the PMS software runs; and the Federal Reserve systems that provide for payments into the commercial banking systems.

The Business Continuity Plan developed by the PSC's Financial Management Service (PSC/FMS) provides for a back-up process in the event of a failure in any of these critical resources. Should the granting agencies' input systems be affected, or if the agencies are unable to transmit electronically, PSC/FMS will receive data on paper forms received via fax (if operational) or mail or courier service. Normal in-transit authorization procedures would then be followed. Grant recipients may also request payments using phone, fax, or courier. Data will be maintained by PSC/FMS on a backup system using stand-alone compliant PC's. Should a problem occur with the Data Center, an alternative back-up processing site would be available through the contingency plan for NIH/CIT. If a problem occurs in the transmission of transactions to the Federal Reserve, PSC/FMS will take advantage of redundancy in the processing path for PMS transactions. Alternative



Federal Reserve processing locations have been established, and the contingency procedures as established by those organizations will be followed to ensure that transactions can be completed. Finally, in the event that a Y2K problem prevents PSC/FMS staff to gain access to their workplace to conduct business, plans and procedures have been developed for staff to be able to continue to work from home or from an alternate site.

In preparation for operation at the century roll-over, PSC/FMS, as part of an overall HHS-wide effort, is also developing a Day One strategy. The organization will have key process and systems staff on site on the week preceding and following January 1 to ensure systems and processes are functioning properly, and to expedite the implementation of any needed business continuity measures or system contingency plans.

#### CONCLUSION

HHS still faces substantial challenges in its Year 2000 efforts. However, let me assure you, on behalf of Secretary Shalala and Deputy Secretary Kevin Thurn, that we will continue to vigorously pursue Year 2000 remediation as our most important initiative. The Department of Health and Human Services intends to meet its responsibility to insure that our Payment Management System which now serves some 20,000 grantees in a number of Federal agencies is Year 2000 compliant. There will be no cash flow problems for our customers due to Y2K problems. Our customers will be paid in full and

on time.

We recognize our obligation to the American people to assure that HHS's programs function properly now and in the next millennium.

I thank the Committee for its interest and oversight on this issue, and I would be happy to answer any questions you may have.

Mr. HORN. Thank you. We are going to ask Mr. Willemssen to rejoin the panel. And we will begin the questioning, and the General Accounting Office is free to comment on all the questions and answers as we go through this. We appreciate the testimony both of you have given. It clears up some of the matters.

Let me start the questioning, if I might, and yield myself 5 minutes of time here. First, I would like to ask the Administrator, in your testimony you state that 17 of the 54 compliant systems are highly compliant and the other 34 require a moderate level of effort to resolve any remaining issues. Is that correct?

Ms. DEPARLE. Yes, sir, that's based on our IV&V contractor's assessment. And then yesterday our staff on the government management group personally met with your staff.

Mr. HORN. Now, your staff stated yesterday that all 54 compliant systems required only minimal effort to complete the remaining issues. And I guess the question is, what's the definition of compliant? How do we know when we are complete here? What kind of testing has gone on?

Ms. DEPARLE. Well, what we mean when we talk about compliance is that all mission critical—I guess it has four steps, all mission critical, local source code, software and hardware used to support the system were renovated and Y2K compliant. Second, that the individual contractor had completed unit testing, integrated testing, system testing and end-to-end testing on the front ends and the shared system software interfaces.

Third, that the entire system had been future date tested using a combination of future dates simulation and in a separate future date tested environment. That's the so-called hard IPL. And they have to have completed and reviewed output from claims cycles during hard IPLs for at least two future dates for the recertification in July. We are going to require them to test more future dates, but for this initial certification it was just two.

In fact, Mr. Chairman, there were a couple who turned in certifications to us, and when we checked on-site they hadn't done those tests, so we took them out.

And, finally, they have to ensure that all mission critical business functions would be Y2K compliant by verifying and, where appropriate, testing the readiness of all mission critical hardware, software, commercial off-the-shelf software facilities and vendors used to support such functions.

And that last area is one area I would like to just point to, because one of the differences between us and GAO is that there are some contractors who had some COTS software, commercial off-the-shelf software, that was not tested and was not Y2K compliant. But in their qualifications to me, which I held up a while ago what we had sent to the committee, the contractor identified that. And we checked it to see whether or not it was mission critical; and if it wasn't we went ahead and accepted their certification.

Now, by this July, when all of that other testing is done, everything is going to have to work, no ifs, ands or buts. But we felt that was a minor qualification at this point. And I think—Mr. Willemssen and I have discussed this, and I think from the GAO's perspective, they think all that should have been done in December. So I think that's the issue.

Mr. HORN. Well, on that very point, you've given a definition of compliant and the Office of Management and Budget on behalf of the President also has a definition, and the General Accounting Office has a definition. And I guess I would ask, Mr. Willemssen, as you listen to this discussion, are they compliant in terms of OMB standards and GAO standards?

Mr. WILLEMSSEN. Well, what HHS has put in their report, the quarterly report to OMB, is that they would provide a description of the progress on their systems being consistent with the CIO counsel's best practices guide and GAO's assessment guide. So from a criteria perspective, given that statement, we used our guide as a measure of whether those systems were compliant.

The Administrator is correct, much of that computer date testing was done. Having it done and then resolving the problems resulting from that testing are two different matters. We expect the resolution of problems emanating from testing to also be done prior to deeming a system compliant. In many cases that has not yet been done.

And I will again repeat, if these issues were considered minor as of December 31st, then one would expect 2 months later, February 26th, that those issues would have been resolved. We haven't seen evidence that they have been resolved and tested so that those systems can be deemed compliant at this point in time.

Mr. HORN. Well, let me ask the Administrator. Are you aware of the lag there, despite the fact that those look like minor bits of the glitch and not major?

Ms. DEPARLE. Yes, sir, I am. And in fact, Mr. Willemssen and his colleagues spent a couple of hours with us on Monday going through all of this to make sure we understood it, and on those specific examples that he cites, I don't know if it's in this testimony, but it's one that he discussed. The Florida shared system, which is one of our biggest systems, there were a couple of issues in their report that in fact they have corrected—they corrected as of January 29th. Those were qualifications that they identified to us and then they corrected and we do have evidence of that. So, I asked Dr. Christoph about this yesterday, just to be sure, and he advises me that these things have been corrected.

Mr. HORN. Thank you. Since we have a visiting Subcommittee on Technology, I'm going to yield to the chair of that subcommittee, and then to Mr. Turner on our committee and then to Mr. Gordon on that committee. So the gentlewoman from Maryland, who is chairman of the Subcommittee on Technology.

Mrs. MORELLA. Thank you. Thank you, Mr. Chairman. The question I want to ask has to do with personnel, since so much of Y2K compliance relies on people. I mean it's so intensive in terms of labor. And since there are really so few who may know COBOL and may know that system, et cetera, could you give me a candid analysis of how personnel fits into the compliance strategy? And I'm asking you, do you have trouble with recruiting people?

Have you had to rely more than you've ever thought on contractors and subcontractors because of that? Are you losing some people who may have seniority or expertise? I know this is a tough question with many implications, but I would really like your candid assessment of it.

Mr. CALLAHAN. Congresswoman Morella, let me make a brief comment and defer to HCFA Administrator DeParle. You're absolutely correct that the human resource dimension is the critical element of getting this Y2K compliant problem solved. It is a difficult problem. Certainly the people that are working on it in the agencies, whether that be at HCFA or Program Support Center, support and deserve our commendation for the long hours that they are putting in and the efforts they are making.

The Department of Health and Human Services was the first agency to go to the Office of Personnel Management and ask for an amendment to the law to rehire annuitants that were familiar with the Y2K problem that had worked at these agencies and could come back and help us in this effort without losing their annuity. As you know, given your experience, if you rehire they—we've hired approximately 54 reemployed annuitants. HCFA has taken the lead. I think they have over 50 of those, and the Program Support Center has brought back a person.

So we took the initiative as a department to go out and seek those qualified employees to come back and help us, and they have.

Ms. DEPARLE. I would say, though, just to add a little bit to this, from speaking to our contractors around the country, the 60 contractors who operate these 78 systems that we've been talking about this morning, they have had difficulty as well in hiring and retaining the kind of personnel that is needed.

And it is something that I think as we get closer and closer to the deadline, one of the concerns I have when we talk about what the challenges are out there, not even just for our contractors, because they've known about this for a year, and they've been working, but for some of the providers like the ones Congressman Turner talked about, if they haven't already started, they're going to have trouble finding people who can do this work. And that's something I've been concerned about.

Mrs. MORELLA. Have you been losing people because of the lure of higher salaries in the private sector?

Ms. DEPARLE. Hardly a week goes by that I don't have one of my senior people in the information services area approached, and I suspect Mr. Willemssen has the same experience, because they do have such valuable expertise. We have been lucky in that our folks feel very committed to this project and seeing it through and are patriotic about it, I think.

Mrs. MORELLA. Has any of the work been sent offshore?

Ms. DEPARLE. Well, HCFA has a long history of public/private partnerships from the inception of the Medicare program. For 34 years, we have worked through contractors. There are only 4,000 people working in Baltimore, there are 25,000 people working at these contractors. So we've always had an imbalance, if you will, with most of our work in this area really being done offsite.

So, we were already using contractors, and I think as Mr. Willemssen pointed out, there's a sense, on this particular project, that contractors are helpful, because they can come in and look over your shoulder, and that's what the IV&V contractor, that GAO advised us to get, has been doing.

Mrs. MORELLA. Is there anything we can do to help with regard to contractors?

Ms. DEPARLE. Yes.

Mrs. MORELLA. I would imagine the data exchange law that passed would have been of some assistance in terms of freeing up some of the chilling effect of just sharing information?

Ms. DEPARLE. I think it helped. And as I mentioned before, one of the first things I did was ask contractors to sign an amendment to their contract requiring them to be compliant. And I was rebuffed pretty strongly for about 6 months. And then after Congress passed the law, they became more willing to do it. Because one of their concerns had been what if the power systems fail or what if things beyond our control failed, and you helped with that.

I should note, too, Congresswoman, you asked me about work offshore, and we don't have anyone working offshore.

Mrs. MORELLA. No, the contractors may and do, whatever, but you don't.

Mr. Willemsen, would you like to comment on that whole concept of personnel?

Mr. WILLEMSSEN. A couple points I will make. First is to echo what Dr. Callahan said is one of the best things that the executive branch did was OPM allowing retired retirees to come back without a reduction in their annuity. That's something we have supported for some time. That was an excellent move. Many agencies, including HHS, have taken advantage of that. Second, in a report we did last year in the personnel area, we did see quite a bit of anecdotal evidence throughout the government that, indeed, there were people leaving for higher salaries.

There wasn't any systemic analysis done, but clearly it was an issue that was coming up. Third, as we move into 1999 the issue will become less about finding people who can fix the code, so to speak, and more about people who have an excellent understanding of end-to-end testing and contingency planning, and I think those kinds of resources will increasingly be in short supply.

Mrs. MORELLA. I want to thank you all and thank you for working together. I think this is critically important, and I hope that you will continue to see us as an important part of working together with you. Thank you.

Thank you, Mr. Chairman.

Mr. HORN. I thank the gentlewoman, and I now yield to the ranking member on the Government Management, Information, and Technology Subcommittee, Mr. Turner of Texas.

Mr. TURNER. Thank you, Mr. Chairman. Administrator DeParle, I want to ask you first to kind of go back with me a little bit. I know that much of the work that you've done trying to become Y2K compliant has been very, very costly.

From your perspective, has the agency been provided sufficient funds to put you in the position to be Y2K compliant?

Ms. DEPARLE. Yes, sir. And I want to thank the members of the committee who have supported us and the Secretary, last year when we realized after getting the IV&V contractor that we had 50 million lines of code to renovate, instead of what they originally thought, which was 20 million. We needed some money fast. And the Secretary did something that was very difficult. She basically tapped funding from other agencies in the Department to come up

with \$40 million, so that we could have right then and go ahead and get the contractors to hire people to do this work.

It would have been harder if we had had to wait for the emergency supplemental to get that done. And so there's been complete support for this throughout the administration and from the Congress.

Mr. TURNER. Inasmuch as you've had sufficient funds to pursue Y2K compliance, what are the reasons then for the delay in the implementation of the Balanced Budget Act?

Ms. DEPARLE. Well, it's a matter of the complexity of some of the changes that were made in the Balanced Budget Act. We've implemented, I think, almost 200 of the more than 300 provisions that were in the Balanced Budget Act. But there are a few provisions that are extremely complicated, like developing new payment methodologies for home health agencies and for rehabilitation hospitals and for outpatient departments of hospitals. Our IV&V contractor, AverStar, came to me last April or May, I think it was, and made the strong recommendation that we stop that work, that we not proceed with trying to make those changes, because it's one thing to make them on paper, in the law, up here and for us to write the regulation and the policy.

But when you have to start implementing those changes into the software—and you had these contractors who were trying to renovate and test the 50 million lines of code at the same time that they're trying to implement complicated software changes—our IV&V contractor told me in no uncertain terms that that would not be a prudent thing to do. So we had to stop that work. We're going to resume it as soon as it is feasible after January 1, 2000. And I hope we will be close to being on track. But I felt I had no choice, because this had to be the No. 1 priority.

Mr. TURNER. Well, as you know, there's been quite a few hardships created, particularly in the home health area in recent months, and it seems to me that what you're telling us is that it was your concern about the ability of some of the contractors to perform both tasks; that is, to be able to implement the new requirements of the Balanced Budget Act and to be Y2K compliant, that caused you to make that decision.

Ms. DEPARLE. That's right. And at the point in time that we were—and I think you've heard from our colleagues at the GAO about the—from the chairman himself. There's nothing that can change this deadline of January 1, 2000. And even with more money, we couldn't necessarily be sure that we were going to get the work done at the level and the quality that it needed to be done. So, I was faced with a choice of do I want to be sure that we're paying claims January 1, 2000, or do I want to get these extra things done.

And that was a hard choice. But as I said, I felt I had no choice. I had to be sure we were going to have our systems ready.

Mr. TURNER. Did the law itself impose deadlines upon you that you, in effect, did not comply with or was this within the discretion of the agency?

Ms. DEPARLE. The law itself imposed deadlines in two or three areas. In the home health area, the Congress, once we had informed the authorizing committees, last summer made some

changes in the home health interim payment system to try to correct some of the problems that had occurred from that and also extended the deadline. The original deadline was October 1, 1999 to implement this new prospective payment system.

And, in fact, before we even started on it, as you may recall, there was some doubt about whether it could be implemented so quickly and the Congress included in the law an automatic 15 percent reduction for the home health agencies in the event that we did not implement. And so last summer, what the Congress did, was decide to change that. And they extended for another year the implementation. It's now October 1, 2000, and we're on track to meet that.

Mr. TURNER. I might ask, Mr. Willemssen, if you had any oversight over that particular decision, and did you concur with the decision that was made?

Mr. WILLEMSSEN. I would want to emphasize one point that the Administrator made, any time that additional changes are made to the software, if indeed that system has been deemed compliant, HCFA and the contractor will have to go back in and retest and recertify that the changes that were made have not changed the system in such a way that it was now not year 2000 compliant. So that adds an incredible extra amount of effort beyond what would otherwise have to be done.

Mr. TURNER. My time is about to expire. Thank you, Mr. Chairman.

Mr. HORN. The gentleman from Tennessee, Mr. Gordon.

Mr. GORDON. Thank you, Mr. Chairman. One of the common denominators that I see between Federal agencies and the private sector in the Y2K problem is no matter how well the agency or a corporation might get their act together, they're still somewhat hostage to vendors and providers. So I guess, Administrator DeParle, no matter how good a job that you might do with your agency, you know, how much at risk are you with these vendors and providers, and what can be done, and where does that stand?

Ms. DEPARLE. Well, with vendors that we deal with in Baltimore, we will make sure that they're either Y2K compliant or that we have a contingency plan in place to get around them. But the area that I'm most concerned about now, as we begin to see daylight on finishing our work and getting that done with the contractors, is what about all of these providers.

And as I said, we took the unprecedented step of writing a letter directly to all of them. We do not usually do that. Normally, the contractors deal with the providers, because that's where the claims come in. We do not deal with them directly. But we have been trying to be much more aggressive than we ordinarily would, because I'm worried some of them will wait until the last minute and try to make these changes and they will not be able to do it.

Even if I'm sitting there and my contractors are ready to pay claims, they will not be able to generate a claim. I think, as I said earlier, the good news is that based on what we know so far, we set a deadline. We started telling them a year and a half ago that they had to be able to submit claims in an eight digit format so there would be four digits for the year, so those would be compli-



ant, and we have extended the deadline a couple times. The deadline is now April of this year.

And there's been some complaining, but from what we're seeing, the compliance is really jumping up. So I'm hoping that is a good sign that providers will be ready. But I continue to share Congressman Turner's concern that there are going to be providers out there whose awareness is not what it should be and that they're not going to be ready. And from the standpoint of our beneficiaries that is what concerns me.

Mr. GORDON. You know, any time you deal with a complex problem, you have to have priorities. And I think that it's wise as it—within this problem to establish, as has been, so-called critical or noncritical missions. And we mostly talked about the critical missions. Tell me a little bit about the noncritical missions. You know, what are some of the things that may not get done because you can only do so much, and what impact are you going to have?

Ms. DEPARLE. Well, for example, I mentioned that in December we finished renovating and testing all of our 25 mission-critical internal systems, the ones that we operate in Baltimore. And those include systems like the one that makes Medicaid payments to the States and the one that makes managed care payments to managed care organizations for Medicare. It did not include some other systems that we are in the process of renovating now, and I believe we're going to make the March deadline on those. But there are things like surveys that we do of beneficiaries and other sorts of software that we maintain to keep data on beneficiaries.

Those things would be of a lower priority as we move toward what are our essential missions. And that's sort of how we've done our contingency planning, focusing on what are our essential missions. For example, what has to happen on day one to keep our business functioning. There will be things such as beneficiary education and things like that, that might not happen if we are in a contingency mode for some reason.

Mr. GORDON. OK, thank you.

Mr. HORN. Now, I yield 5 minutes to the vice chairman of the Subcommittee on Government Management, Information, and Technology, Mrs. Biggert of Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman. Ms. DeParle, it seems like you've got an awful lot to accomplish here, and you have made this your top priority and are working very hard to accomplish it.

Are you still able to do business as usual and really, you know, continue with what you are working on, such as Medicare, Medicaid plus program and things like that? Do you have enough personnel to continue on your regular scope of business?

Ms. DEPARLE. Well, there's no question that we're stretched. And for example, on the ones that you raised and on the many other things that we're doing, the other Medicaid tasks, Medicare, beneficiary education, we're probably not doing as much on those as we would have been. It is not because those staff are working in information systems and making the renovations or overseeing that, but because we've had to deploy staff to go out to contractors and oversee their work.

And we have a lot of staff working right now, I think maybe almost 100 people of our 4,000 are working virtually full-time, on

contingency planning because we have to get that done by March. So I think it has probably slowed down progress in other areas.

You heard the questions that Congressman Turner asked me about the Balanced Budget Act. When you make something your top priority, it means that you're probably diverting attention from other things. I think we're getting our essential missions accomplished despite that. But there's no question that Y2K has been something that we had to put our full focus on. And certainly in the information systems area, which is one of this committee's interests, Dr. Christoph I brought from the Los Alamos National Laboratory to help us develop a new information technology infrastructure, which is something that we need.

That isn't what he's been doing. He has spent his full time working on managing this Y2K project, because this is what we had to get done.

Mrs. BIGGERT. Thank you. Then you, in your testimony, talked about the States, as well as providers, but the State as the provider, and said you don't really have the authority to demand that they are compliant. But you're working with them. Are there any—well, are you working with the States really to educate them on this as a top priority, and what else can be done to ensure then that the State systems will not fail?

Ms. DEPARLE. Well, we are working with the States, and we started that well over a year ago by sending them the GAO's guidelines on what they should be doing. But last summer, I became concerned about where the States were, because we were getting self-reported data from them that didn't give me confidence that they were all sufficiently on top of it. The GAO was also looking at it and was getting similar data that they reported to the Congress in November.

So we ended up hiring an IV&V contractor to go out to the States to investigate how they were doing. There are two main systems that they operate that are critical to Medicaid. One is their eligibility system, and the other is their—what's called their MMIS, their Medicaid Management Information System. And we have sent independent contractors out to—I think we've been to 16 States now, and it will be 20 by the end of the month and by April we will have been to all 50 States—to just investigate how they're doing.

We're working directly with them, sending them the results in the same way that GAO would send us the results, giving them an opportunity to comment, but we're going to aggressively identify the problems there. We're also asking to see their contingency plans.

And by the way, we pay for this. You should know that Congress, through the Medicaid program will pay for States' remediation efforts, 75 percent, as well as if they had wanted to hire IV&V contractors, you would have paid for that. And we urged them to do it. Most of them weren't doing it, which is why we decided to do it ourselves.

Mrs. BIGGERT. Are there other working groups, like say as groups of hospitals, are you getting together with them to discuss the problems?

Ms. DEPARLE. Yes. We're meeting on a biweekly basis with all the different trade associations in town that deal with health, and I've met personally with the State Medicaid directors, with the hospitals, with the managed care plans. We've had hundreds of meetings with them about this.

Mrs. BIGGERT. Is that a definite structure that's set up and when did that start to occur?

Ms. DEPARLE. It started, I want to say, in earnest in late spring or summer of last year—the outreach effort—and has been continuing, as I said, on a biweekly basis since then.

Mr. CALLAHAN. I might add, if I could on that, John Koskinen, who is the President's special advisor in year 2000, has asked all the various Federal agencies to share various sector groups. The health—the overall health and the human services sector group is shared by the Deputy Secretary in our department, Kevin Thurm, and as Nancy Ann has mentioned, we do have periodic meetings with the health care sector, not just hospitals, but, for example, at a recent meeting with the pharmaceutical association, the drug stores, the Veterans Administration, et cetera. So we're actively reaching out to them to get their best information possible as to the Y2K situation.

Mrs. BIGGERT. Just one last question. GAO talked about every time there's a change or someone is not in compliance then it has to be retested and reworked. What time do you envision that you would be able to test every system and if it works, and if it doesn't, will you still have enough time to rework it? Is that like October?

Ms. DEPARLE. We plan to complete our end-to-end testing by the end of October. And in July, we're going to freeze all of our systems, in other words, not make any other changes that would require another whole round of testing. But he's exactly right, that's been one of the complications of what we do, because so much of what we do involves making updates and changes and that kind of thing. And if you're doing that, it interferes with the work you need to do to make sure everything is compliant.

Mrs. BIGGERT. Thank you very much. Thank you, Mr. Chairman.

Mr. HORN. Thank you. We will now start on round two of 5 minutes apiece. I would like to just clarify what's compliant and what isn't.

Mr. Secretary, as I look at what the whole department submitted, they said there was a dramatic 34 percent increase this quarter. And I'm just curious, I think it was made up of 96 critical mission systems, as I recall, and then the question would be, is the Medicare 54 part of the 96?

Mr. CALLAHAN. Yes, I believe it is, sir.

Mr. HORN. OK. Then the question gets down, Mr. Willemsen, do you think their view of compliance and the General Accounting Office's view of compliance, do you think we're on the same wavelength or is there a discrepancy here?

Mr. WILLEMSSEN. We definitely have a discrepancy on those 54 systems.

Mr. HORN. And what do you think has to be done to make them come into compliance?

Mr. WILLEMSSEN. We not only have to go in and change the software to deal with the problems that have been identified, but you

also then have to test that those changes have fixed the problems that were previously identified. And that—we haven't seen that evidence for those 54 yet.

Mr. HORN. Any reaction of both the Administrator and the Secretary?

Ms. DEPARLE. Well, I think part of what Mr. Willemssen is talking about is, as auditors, the GAO relies on the paper trail, and they looked at the self certifications that we got at the end of December, and they were looking at the paper trail. The qualifications that were given to us were worded quite broadly. They were written by lawyers. That shouldn't surprise me, since I'm the one who started this by saying I wanted a contract amendment. But what I think the GAO wants to see is paper evidence again that they can rely on to say that those things have happened, and I think we should get the GAO that.

Mr. HORN. Well, as you know, the basis for judgment both by the executive branch and the legislative branch is the fact that we deal with self-reported data, and that's why we try to clarify when we get into one of these things as to the degree of progress a particular department is making, such as Health and Human Services. We want to figure out what's backing those numbers, and is there an agreement on definitions so we're all singing from the same hymn book and that we don't have dissidents, we have harmony, and that's why we're fishing to see if, indeed, we really have had more systems comply in this last round that we've reported on last week. And I take it you agree that there's still a lot of work to be done to make them really compliant?

Ms. DEPARLE. Well, actually on a couple of systems that the GAO has expressed concerns about, and I mentioned the one in Florida. We believe we've given them the documentation that should have satisfied them.

And just to follow your point, Mr. Chairman, I also don't want to rely just on paper, because I learned very quickly that wasn't good enough, and that's why I asked a number of our employees to leave their home base to go to Little Rock, AR and Richmond, VA and places where they don't live, to be onsite with these contractors to make sure what the contractors were telling us was what was happening.

So we have more thorough information than anyone else does about this. But having said that, you know Mr. Willemssen has been very helpful to us, and I trust his assessment of this. And I want to make sure that—I don't have any interest in relying on something that isn't accurate. So I want to make sure that the GAO is satisfied.

Mr. HORN. Well, may I suggest that both the General Accounting Office and your agency, HCFA, agree on a pattern of testing just to solve this problem and make sure everybody is talking the same language?

I want to move on now, Mr. Callahan, to an area in which you are involved. Very few of the departments merged the Chief Information Officer role with the Assistant Secretary for Management. How did that happen in HHS?

Mr. CALLAHAN. Mr. Chairman, you and I have had some previous discussions on this. We are a very centralized—we have a very cen-

tralized management system at headquarters in HHS. For example, I am the Assistant Secretary of Management and Budget, Chief Information Officer. I'm also the Chief Financial Officer. There are days when I probably wish I could shed some of those responsibilities.

Mr. HORN. But don't you need somebody else to work 18 hours a day, 7 days a week?

Mr. CALLAHAN. Let me say this, I don't do it all myself obviously, but we have able Deputies, Deputy CIO Dr. Stillman, et cetera. But the key point here is we are able to move very, very quickly on behalf of the Secretary and the Deputy Secretary to make those decisions, I think, which help the Y2K situation. For example, in the area that Administrator DeParle mentioned last year, HCFA indicated that they needed an additional \$40 million on an urgent basis. Because I'm the Assistant Secretary of Management and Budget and work with the Secretary and execute the authority we have to transfer up to 1 percent of our appropriations among accounts, we were able to execute that and do it in record time so that in essence we met that deadline. I dare say that other departments would not have been able to do it as quickly or as effectively as we did. So there are benefits in centralization.

Mr. HORN. Well, there's also when we could get two other fine people like you working on various aspects, both the financial and the information side, it seemed to me we would make a little more progress, because this is just a heavy job, you all know that.

Mr. CALLAHAN. Yes, sir.

Mr. HORN. And Treasury did the same thing, and Treasury has got major problems I think because of that, where they didn't have a new business and focus of energy in an area to straighten it up. I will get back to a few other questions later. But let me now yield to Mrs. Morella, the gentlewoman from Maryland.

Mrs. MORELLA. Thank you. You know, one of the concerns with regard to this computer glitch is how the public is going to react. I mean attitude, whether it's going to be panic, whether it's going to be a laissez-faire concept that we don't have to worry about anything. I always say it's between Chicken Little and Pollyanna, in terms of where we should be. But how are you communicating with the public to assuage concerns that people may have—and that I think will be exacerbated as we get closer to the date and you're hearing more and more about Y2K. I mean Steve and I were involved in this 3 years ago as we started, but only now are people beginning to realize, you know, Mark Gordon and others, are beginning to realize that this is a situation where we can't have a continuing resolution.

Do you have a responsibility to communicate, to establish information lines, again, to assuage concerns that your recipients, whether it's agencies, States, individuals, are experiencing or will experience?

Mr. CALLAHAN. Congresswoman Morella, we absolutely have that responsibility, and we have that responsibility in the context, as you know, of working with John Koskinen under the President's Y2K Conversion Council. He has made it clear that one part of his efforts in terms of advising the President and the general public is

to give periodic reports to the President and the general public about our Y2K readiness and our ability to meet the Y2K situation.

As Administrator DeParle mentioned, she's worked—she sent out nearly 1.25 million letters to the providers, hospitals, doctors, et cetera, who have to on their own, as you know, they have to work hard to meet their side of the Y2K question. We intend to obviously offer this committee and the public as much information as we can as to the situation with regard to Y2K readiness. So you're absolutely right. We have that responsibility, and we will exercise that.

Mrs. MORELLA. Would any of you like to comment on it?

Ms. DEPARLE. Just one more comment. Another thing we've been doing more recently in this health care sector group that I mentioned that's working together with the various hospital, doctor and other groups, rural providers and others, on outreach is our first level of reaching out to the actual providers themselves, to make sure they're ready, because that's the best risk mitigation strategy you can have is to make sure they're ready.

But we do think the next step is to work together to reassure the public, and we think that's something that we should do as an agency and as a department with the providers. So, for example, we've been working with the drug companies on how we will reassure the public on those issues and the Deputy Secretary of the department is leading that effort. We're working with the hospitals on how we will reassure the public about their readiness. So that's sort of the next step of this.

Mr. WILLEMSSEN. If I may make two points, one general and one a little bit more specific. The general point is the best way to combat public panic is with hard data, and the Federal Government is obviously in the lead on that and has been for some time. Federal agencies can provide data on where they're at, and they will have organizations such as GAO coming in and looking at where they're at, and making assessments of that. So I think to the extent that we can put the data out there, that will help combat the fear.

Second, and a little bit more specific to HCFA, a hearing like this obviously airs that HCFA has some issues and some challenges ahead and that there is a high possibility that there will be some system failures. But to the extent that HCFA can demonstrate through the remainder of this year that the excellent efforts it will have done in the contingency planning area, it can then say even if we do have some system failures, don't worry, because we have some backup plans in place to make sure that providers are paid and services are still provided.

Mrs. MORELLA. I see a role for public service announcements, maybe some other kind of simple mailer to people to just say we are working on it, we will be all right. We will have perhaps, at most, some inconveniences, but we want you to know that blah, blah, blah, because I'm hearing more and more from people, will my Social Security check be out there. We say, oh, yes, they started in 1989 and they're doing very well and then you get into the other areas.

They also want to know what should they ask, you know, particularly in the medical field. I just think all of us, whether it's done through agency by agency, I think there should be a strategy for communicating with the public.

Mr. CALLAHAN. I do know, as I'm sure you're aware, that the FTC, for example, has omnibus Y2K consumer Website where—

Mrs. MORELLA. Yes.

Mr. CALLAHAN [continuing]. If you as a consumer want to know about your microwave, or whatever it is you want to know about, you can get into that, and they will try to provide you the best answers as possible. As does SBA, for example, with small businesses.

Mrs. MORELLA. They have their Website, I know. And the other day I was at an event for Red Cross. Red Cross has a wonderful little pamphlet for consumers, for constituents, what should you ask, what should you know, what is Y2K, done very simply, nothing complicated. But it gives a feeling that we know something about it and we will have a part to play and ultimately people are working on it, it will be OK.

Thank you all very much. Thank you, Mr. Chairman.

Mr. HORN. Thank you. Now I yield 5 minutes to questioning to the ranking member of the Government Management, Information, and Technology Subcommittee, Mr. Turner of Texas.

Mr. TURNER. Dr. Callahan, you mentioned that you're having to operate both computer systems for the payment management systems for the year 2000. The old system has been updated and you still got the new system you're bringing on line.

Mr. CALLAHAN. I might correct that. Let me—I don't want to interrupt, but that's not quite precise, but I will—

Mr. TURNER. Go ahead, if I misstated it.

Mr. CALLAHAN. Actually the reengineered payment management system, which is the one that we want to put in place of the existing system, is not operational. This was brought about as a business decision starting in 1994. A basic decision was made that we should have a new payment management system, and we will provide you a chronology of what's happened with regard to that system.

[The information referred to follows:]

ANSWER: The chronology of the reengineered Payment Management System (PMS) is as follows:

X

CHRONOLOGY OF REENGINEERED PMS

<i>June 1993</i>	<i>Business Review - Logistics Management Institute (LMI)</i>
<i>1994</i>	<i>Business decision to reengineer PMS</i>
<i>Sept. 1995</i>	<i>Focus group meetings to assess User's needs</i>
<i>July 1995</i>	<i>PRC - Started design of new system (Phase I)</i>
<i>April 1997</i>	<i>LMI - Quality Review of PRC design documents</i>
<i>Dec. 1997</i>	<i>Contracted Logicon Corp. for Reengineering Construction Phase (Phase II)</i>
<i>Jan. 1998</i>	<i>Contracted KPMG for management support and IV&amp;V</i>
<i>Dec. 1998</i>	<i>Remediated code for Legacy System Y2K</i>
<i>Jan. 1999</i>	<i>Contracted with Averstar Corp. to assess, support and monitor the PMS Y2K compliance efforts.</i>
<i>Feb. 1999</i>	<i>Decision made - Make Legacy system Y2K compliant</i>
<i>Feb. 1999</i>	<i>Continue construction of the Reengineered PMS</i>



Mr. CALLAHAN. It was our intention—we had hoped that that new system would be fully in place by December 1998 and Y2K compliant. Obviously, it was built to be Y2K compliant. But it was scheduled to be in place and operational by December 1998 and then we would be able to replace the current system.

During the latter part of 1998, as we were looking at it, we understood that there may be slippages. So we then in November 1998 with our current system—that's the system that operates, it's ongoing today and it does all of these things that I mentioned earlier—we said we have to go back and look at its code and remediate its legacy code to be Y2K compliant.

We did that in November; the code has been fully remediated, the code itself and the current operating system is Y2K compliant. But it has to go through further testing and certification through an independent contractor. At that time we also contracted with the Avistar Corp. and said, look, this is where we are, we've got to remediate it, we want to do two things. We want to be Y2K compliant as fast as possible, and then, second, we want to have for the future as a business case a better payment management system.

They looked at where we were, both on the remediation of the legacy code system and this new reengineered payment management system, and gave us the report which basically says what you should do is, first of all, devote all of your current efforts between now, and they estimate June and they have a detailed timeline, et cetera, to make sure that the current system which you've remediated, the legacy code system, will be fully Y2K compliant.

However, at the same time or after, as you finish that up, you should not forego developing a new reengineered system. They felt that the code that we had developed in that, not all were hardware, not all were conversions, et cetera, that it was a good business case to continue to proceed with. But they said, you can't do that at the same time you're doing all of this repair to the current system. But they said don't give up on the business case, but put it second.

That's exactly what we intend to do, so that we will have a Y2K compliant system by June, the current system, and then hopefully, if everything works out right, we will have a second system that will be Y2K compliant. But, obviously, we would not move into that second system until, unless and until, it can be proven that there will be no disruption in service.

And, again, we think the report that Avistar gave us was an excellent roadmap. It will be provided to GAO. It's candid. It says this is where you've been, and this is where you should go, and we intend to follow that as a roadmap and again we will provide it to the committee, and we will hold ourselves to the milestones that are provided in this independent report.

Mr. TURNER. I only raised it because it seems to me to be a very obvious example of how costly Y2K compliance has become, because you never would have tried to remediate the legacy system had we not been faced with Y2K.

Mr. CALLAHAN. Absolutely.

Mr. TURNER. It might be interesting if you could share with us, if you have an estimate, of how much Y2K is going to end up costing the Department of Health and Human Services.

[The information referred to follows:]

**Department of Health and Human Services**  
**Total Y2K Costs -- Fiscal Years 1996 - 2000**  
 (As of April 2, 1999)

(Dollars in Thousands)

FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	TOTAL
\$ 7,190	\$ 32,213	\$ 190,870	\$ 427,276	\$ 165,168	\$822,717

Mr. CALLAHAN. I can get you all the detailed fiscal information for the record.

Mr. HORN. We will put that in the record at this point.

Mr. CALLAHAN. Last year's emergency appropriation for Y2K was \$3.2 billion, the Department request under that emergency supplemental \$285.3 million. We have received those requests, and indeed we received another \$93 million fairly recently which HCFA has requested for its second installment of emergency money.

So at this point, we are approximately for 1999 around \$372 million, with obviously the lion's share of that being allocated to HCFA for its work on its internal and external systems. That is the top priority of the Department.

Mr. TURNER. One final question I want to ask Ms. DeParle. I know that you have made efforts to notify the providers, and you have sent out over 1 million letters to the providers. In fact, I don't know, Mr. Chairman, if we have that in the record or not.

Mr. HORN. Two million.

Mr. TURNER. It might be nice to place that letter in the record.

Mr. HORN. Without objection.

Ms. DEPARLE. It also went out to every Member of Congress.

[The information referred to follows:]



DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Health Care Financing Administration

The Administrator  
Washington, D.C. 20201

January 12, 1999

Dear Health Care Partner:

You have probably heard about the Year 2000 computer problem, or the "Y2K bug." As a health care practitioner or institution, you need to be aware of how Y2K affects you and your patients. We all must do our part so that Medicare and Medicaid beneficiaries continue to receive high quality care, and you or your institution continue to be paid accurately and promptly.

The Year 2000 problem appears simple on the surface. Many computers and devices use only six digits to record dates. They may read 01-01-00 as January 1, 1900, rather than January 1, 2000. Patient care services, systems, and devices that rely on dates, the age of the patient, and other calculations could be severely affected if corrections are not made in time.

Every business and organization that relies on computer systems or devices must address Y2K. For all of us in the health care industry, it is a patient care issue as well as a business and technical problem. As Administrator of the Health Care Financing Administration (HCFA), I need to make sure you are aware of some key points:

- ▶ **HCFA will be ready to process acceptable claims.** We have made substantial progress in correcting our own systems in recent months and, despite earlier concerns, we will be ready on time. We are confident that all Medicare claims processes will be ready and able to function come January 1, 2000, so that you can be paid promptly.
- ▶ **You must also be ready if you wish to be paid promptly.** We can process your claims only if your systems are also able to function in the Year 2000. It is **URGENT** that you act **NOW** so your systems will be ready. Otherwise, you may not be able to receive prompt payment from Medicare, Medicaid, and virtually any other payer.
- ▶ **Your entire practice and facility must be ready.** The Y2K problem could impact quality of care and patient safety. Patient management systems, clinical information systems, defibrillators and infusion pumps and other medical devices, even elevators and security systems all must be ready.

We want to help you prepare for the Year 2000. Enclosed is a "Sample Provider Y2K Readiness Checklist" which you can use to assess what you need to do. You can find additional useful information at our [www.hcfa.gov/Y2K](http://www.hcfa.gov/Y2K) web site. Information on medical devices is available on the Food and Drug Administration's [www.fda.gov/cdrh/vr2000/year2000.html](http://www.fda.gov/cdrh/vr2000/year2000.html) web site.

We are confident that HCFA will be ready, but we are also making contingency plans so we can continue operations if unexpected problems occur. For those of you that rely on computer systems, we believe the greatest risk is that your systems will not be able to bill for services.

You need to make sure you will be ready for the Year 2000. And, like us, you need to make contingency plans for your critical operations. These should focus especially on assuring safety for your patients who are reliant on equipment and devices containing embedded chips. In addition, you need to assure your ability to generate bills and manage accounts receivables, and assure essential services and supplies are maintained. Your patients and your business may depend on this.

**What can you do to avoid potential Y2K pitfalls?** There are key steps you can take to become Y2K ready:

**Become aware** of how the Year 2000 can affect your systems. Anything that depends on a microchip or date entry could be affected. Don't forget to identify those organizations that you depend on or who depend on you. List everything and identify your mission critical items, namely, those you cannot live without.

**Assess** the readiness of everything on your list. You can do this by contacting your hardware or software vendors or accessing key information from various web sites. Don't forget your maintenance and service contractors. If your particular software program or form is not Y2K ready, you need to decide whether you should invest in an upgrade or replacement.

**Update or replace** systems, software programs, and devices you decide are critical for your business continuity.

**Test** your existing and newly purchased systems and software. Do not assume that a system or a program is Y2K ready just because someone said it is. Test to make sure. During this process, keep track of your test plans and outputs in case a problem surfaces later. If you are not already using compliant electronic claim formats, consider testing your electronic data interchanges (EDI) with one or more of your payers, including Medicare. This will ensure that your payer can accept your EDI transactions, especially claims. Medicare can now accept claims with eight digit date formats.

**Develop business contingency (continuity) plans** in the event something goes wrong. Focus on the things that would be most problematic for you and your patients.

The enclosed checklist may also be helpful. It is only meant to be a guide and should not be considered all-inclusive.

Medicare beneficiaries are counting on all of us to meet the Year 2000 challenge. We will be ready. Now you need to do your part to be sure that you will continue to be paid as beneficiaries are assured that they will continue to receive the health care they have come to depend on.

Sincerely,



Nancy-Ann Min DeParle

Enclosure

Mr. HORN. Let me say, if I might, to my colleague, if you want a Member of Congress to read it, put on it "personal and confidential" and it will go in. Otherwise it is in the box of junk mail. I am one of the rare ones that reads all of that stuff every 2 weeks.

Ms. DEPARLE. It came out in early January, so I was hoping maybe during the recess there would be a little more time to look at things. I was hoping some of you might use that information in your newsletters that I know you send to district folks.

Mr. TURNER. I see my time has expired. One subject I wanted to touch upon briefly, I wanted to get your assessment of the risk that we face in the biomedical equipment area. I know you have made some efforts to try to get the biomedical equipment manufacturers to notify all the providers regarding Y2K problems. But how do you personally assess that risk? That is one that greatly concerns me, particularly being from a rural area, where we have a lot of old equipment in rural hospitals. What is your assessment and what do you think you can still do to minimize that?

Ms. DEPARLE. I have focused on the claims processing and payment systems. That is what the Health Care Financing Administration does. I think Dr. Callahan can give you a better answer on that.

Mr. CALLAHAN. The Federal Food and Drug Administration is the agency within the Department that has to take that task on you are so concerned about. I do know they have been requested by the full committee for a variety of questions and answers related to the biomedical situation that those will be forthcoming, I believe in the next day or so, and we would like to provide those to you for the record.

Let me say in general, however, the FDA has moved aggressively, along with other partners in the government, the Veterans Administration and others, to put up on a Website the Y2K compliance aspects of biomedical devices.

But in addition, what is also important, Congressman Turner, as you know, is that each hospital and health care provider that has biomedical equipment has to go in and do an inventory of that equipment. They have to know what equipment they have on hand.

For example, the Indian Health Service, under the jurisdiction of the Department, has completed its total inventory, as I understand it, of all the biomedical equipment that they have in their hospitals. They are matching that information against the FDA Website and working, again, with an independent contractor to determine what of that biomedical equipment is not Y2K compliant, and then they are moving immediately to buy or replace that biomedical equipment.

I just mention this, because this gets back to the point that Administrator DeParle mentioned. It is absolutely essential that the hospitals and the clinics and our community health centers, and again our Indian Health Service, for example, get out there and do this work themselves.

We cannot, the Federal Government, cannot go in and do an inventory for them. They have to do it. Once they do it, we feel we will have sufficient information against which they can assess their biomedical situation.

Second, they have to get with their vendors too. They have to say I have this biomedical equipment, get on the phone with the vendors and ask is this Y2K compliant. I would ask them to test it. So it is a big job, and we have a central role to play in it, but it is also important for the providers to do their work.

Mr. TURNER. Thank you.

Mr. HORN. Now I yield 5 minutes to the vice chairman of the Subcommittee on Government Management, Information, and Technology, Mrs. Biggert of Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Ms. DeParle, do you think that there is any concern on the part of providers that liability issues are impacting their progress, or either whether they are going to work harder to comply or whether just not to do anything, and that they might not have the same liability? Is this an issue? Are they concerned about liability because of failures of the programs?

Ms. DEPARLE. Well, we have been mainly relying on outside assessments that have been done of provider readiness. There is a group called RX 2000 that we commissioned to do a study. The Inspector General at our Department has also done a targeted study of Medicare providers that I think she will be releasing shortly.

I don't know if that issue has come to the forefront as much as I do have some anecdotal evidence that some providers have been concerned. As I mentioned to the chairman, it was an issue for me personally about our contractors when I first said I wanted the contractors to sign a contract amendment.

There is a lot of concern, there has been a lot of concern about liability. I hear it from, for example, managed care plans that I have talked to, that they are concerned about—we have asked them to sign a contract amendment certifying they are going to be ready to pay managed care payments. Some of them are concerned about it.

I think that the work that this committee and the Congress have done in trying to alleviate some of those concerns has helped, but I think it is still an issue out there.

Mrs. BIGGERT. Thank you. I might ask Mr. Callahan too, as far as the payment management system, are there implications with the contractor departments. You do all this for all the different Federal agencies like the Department of Labor and NASA. Are there implications for them as well as if there are payments within your payment management system?

Mr. CALLAHAN. Again, a couple of points. We are very confident that, given the information I have mentioned to you earlier, we will be fully compliant with the legacy payment management system in June of this year. At the same time, we will also, as we have, we will provide you with the contingency plans that will ensure that all the grantees, whether they are in our own Department or out in the States or localities, will receive their money on time.

There may be an issue, for example, on a contingency plan, as I mentioned to you earlier since the payment management system is just in time payment, if you will. It helps prevent a float. That is, we don't give money to the States that they don't spend that we could have earned interest on.

But obviously, if we get to a point where we have to have some contingency plans and maybe deliver payments in less than just in time, we may have to suggest waiving some of the provisions of the Cash Management Act. But I think we will know exactly once the 2000 appropriations are passed exactly what all these agencies will need by way of grants, and we will make sure that they get those grants.

Mrs. BIGGERT. Thank you. Mr. Willemsen, do you see this as a growing concern?

Mr. WILLEMSSEN. Yes. It has been a growing concern. It is a concern that was attempted to be addressed with the Readiness Disclosure Act that was passed late last year. I think this spring there will have to be a reassessment of the success of that act, and if indeed it has allowed more disclosure of information. One thing we will be particularly looking at is Mr. Koskinen's early April report on the readiness of all the key sectors in our country. To the extent that we begin to see much more detailed rich data on the readiness of those sectors, I think that can be used as a measure of the success of that act. To the extent we do not see that, then I think there will need to be a reassessment of whether additional legislative action is necessary.

Mrs. BIGGERT. Thank you. Thank you, Mr. Chairman.

Mr. HORN. Thank you. I want to go to a very broad question, and I need to know who is the senior one in chronology in the Department. Mr. Secretary, when did you join HHS?

Mr. CALLAHAN. I joined in May 1995 and was confirmed in August 1995.

Mr. HORN. Well, you are all innocent, but I am going to put the question anyhow. Social Security realized there was a real problem with the year 2000 back in 1989. When we were drafting Medicare, Social Security was the model which was used to draft Medicare. The Secretary was involved, the Commissioner of Social Security. Social Security in the sixties was regarded as the best managed agency in Washington, DC. I think it still has a lot of that reputation.

But I am curious if maybe you just know anecdotally, when Social Security, which was then under HHS, started doing this, why wasn't there somebody in Medicare, and this is long before the current Administrator's tenure, but why didn't somebody say gee, we ought to do that too?

Mr. CALLAHAN. Well, I can't answer that question directly and fully, but let me offer one observation. Social Security and HCFA are really two different organizations, as you know.

Mr. HORN. Right.

Mr. CALLAHAN. Social Security, to their credit, retains a large direct service delivery structure through their offices, they retain probably one of the best information technology work forces inside their agency. I had the pleasure of working with them. They are first rate people, and there is a critical mass of information technology people that enables them to get the good marks that you give them.

HCFA, on the other hand, has to rely, as Administrator DeParle has said, on contractors to do a lot of their work. This was something that was established in legislation, and, as you know, we

have had discussions about the relationship between HCFA and its contractors. So I would just say they were two different organizations.

I would also offer the observation that Social Security had the structure and critical mass of people to succeed at a quicker rate on this, no matter when the decision was made, than possibly the Health Care Financing Administration, with no disrespect to the current Administrator or previous Administrators.

Mr. HORN. Let me just try to focus in now, just to get in one place in the record the legacy payment management system. As I understand it, in November 1998 you said you would think the code was all remediated by that time, and I think you said they would be year 2000 compliant by June 1999.

I guess I would ask the question of how much did the original system, which is still there until assured of the secondary system, reengineered though it might be to see that that is compliant, what are we talking about in dollars?

Mr. CALLAHAN. We have spent, it is my understanding, to remediate the code on the legacy-based system, that we have spent \$850,000 on that remediation. We have now, on the basis of that, the Avistar report, which we are giving to the committee today, indicates with that code, that remediated code in place, they have given us the milestones and the particulars to go through the remaining processes to make sure it is certified and implemented, and they estimate that it will take until June for us to do that.

Mr. HORN. So the total cost, how about the total cost of the payment management system?

Mr. CALLAHAN. The other system, the reengineered payment system that we want to eventually get to—

Mr. HORN. Well, are you saying that the total cost of the original system that you are still working with, you are saying that is \$850,000? It sounds a little low to me.

Mr. CALLAHAN. That system has been in operation for a long period of time.

Mr. HORN. What, 10 years?

Mr. CALLAHAN. I am not exactly sure, but probably at least 10 years, or at least a large number of years. So there has been no structural work on that other than it operates on a day-to-day basis. But when we get to the situation of having the concern that the reengineered payment management system would not make the Y2K deadline, we went back and looked at that legacy code and had it remediated, and that has been remediated. That cost us \$850,000 to do that.

Mr. HORN. OK. But that is not the original cost of the system.

Mr. CALLAHAN. No. The original cost of that system, I will have to get that information for the record.

[The information referred to follows:]

The PMS system was developed over a five year period from 1979–1984 at a cost of approximately \$8 million.

The exact cost to have the factory remediate the legacy code was \$594,323.

Mr. HORN. If you could. What I am going to leave open is the questions we asked about this now and since you just gave us the document today, questions that we will send down to you and we



will put without objection, the whole bunch at the end of the hearing. But we will have it in one place.

So now that we have got the secondary system that you are going to move to when you can be assured that it is compliant, what is the estimated cost on that?

Mr. CALLAHAN. We will supply that for the record, but to date we have spent \$6.7 million on that since 1994.

[The information referred to follows:]

The estimated cost to have the system deployable is \$10 million (in round numbers) and includes the \$6.7 million already expended.

Mr. HORN. Since 1994. That is the secondary system.

Mr. CALLAHAN. Yes.

Mr. HORN. OK. Now, was your original payment management system approved by the appropriate authorization committee and appropriations subcommittee?

Mr. CALLAHAN. I will have to get that information for the record.

[The information referred to follows:]

PMS was not the "original" grants payment system in HHS. It was a third-generation system preceded by the Departmental Federal Assistance Financing System (DFAFS) and the NIH Grants Payment System (GPS). The GPS originated in the sixties and operated with funds appropriated for normal administrative activities. Therefore, there was no formal request of special appropriated funds for a "new" system. The funds for the PMS upgrade were included in our budget requests and were appropriated accordingly.

Mr. HORN. I take it you billed your customers to try to cover the cost?

Mr. CALLAHAN. Yes.

Mr. HORN. What kind of money are we talking about?

Mr. CALLAHAN. You mean our annual inflow?

Mr. HORN. What is your annual revenue for serving people in the rest, the executive branch?

Mr. CALLAHAN. I will get that for the record, the actual dollar, but I will tell you the fees for this are extremely low, because in essence we provide not only the just in time service, but we reconcile the accounts so there is no Cash Management Improvement Act problems. That is, the agency doesn't have to pay interest to the States or vice versa.

[The information referred to follows:]

The total revenue for FY98 was \$9,076,927.

Mr. HORN. There is \$170 million a year flowing through that system, is that correct?

Mr. CALLAHAN. \$165, I think it is, or \$170. I will get the precise amount.

[The information referred to follows:]

The precise number is \$165,710,740,000 or 166 billion.

Mr. HORN. OK. Have you kept those records? Is that part of your accounting system?

Mr. CALLAHAN. Yes.

Mr. HORN. Now, how different is it or how similar is it to the Financial Management Service within the Department of the Treasury and the center in New Orleans of the Department of Agriculture that some other departments use?

Mr. CALLAHAN. Vis-a-vis the Treasury system, it has additional functionalities, the current system and the future system have functionalities like Cash Management Improvement Act capabilities that the Treasury system does not have. There are other agencies right now that, for example, the Department of Education has its own grant payment management system. The Council of Chief Financial Officers has in response to State officials who don't like all these different grant payment systems working, recommended that only two systems be used, the Treasury ASAP system and the HHS payment management system. So we have gone out and worked with each of the agencies. They will be making their choices over time.

So at some point down the line, it appears that there will be only two payment management systems run by the Federal Government, the Treasury system and our system.

Mr. HORN. Now, the Treasury system runs the Social Security checks, is that not correct?

Mr. CALLAHAN. Social Security—

Mr. HORN. Financial Management Service.

Mr. CALLAHAN. Yes, that goes to the Financial Management Service. I am not sure that is ASAP, which is their grant payment system. I have to check on that.

Mr. HORN. I am just curious. So each Cabinet Secretary has a right to make a choice as to where they will get the best service?

Mr. CALLAHAN. Yes.

Mr. HORN. Is some of that related to the actual cost?

Mr. CALLAHAN. Yes.

Mr. HORN. Are you the cheapest deal in town?

Mr. CALLAHAN. We think we are the best deal in town.

Mr. HORN. I know you think you are the best. The most reasonable rate that you charge.

Mr. CALLAHAN. Right.

Mr. HORN. Well, we are interested in that, just to make sure it is on line. We are interested in the compliant bit, and I think if you can all agree on what is the appropriate test, we will know in the next round if something really was remediated.

Mr. CALLAHAN. Yes, sir.

Mr. HORN. Let me just make a few comments. We have had some very fine testimony this morning that has clarified a number of things for us. The fact is, millions of American citizens rely on Health and Human Services and your very critical services. We all know that Medicare is just one of the key things in this society. When you think back what this country would be like if we hadn't had Medicare established in 1965, you would realize that this is one of the major laws of the 20th century.

We are going to continue to monitor the Department's progress to develop the new system on the legacy system, and we will maybe have a future hearing on all of those types of operations in the executive branch.

However, I remain concerned about the Health Care Financing Administration's external mission critical systems that were recently reported as being 2000 compliant. I am assuming GAO and you will get agreement on this by the next round, because to me "compliant" means compliant, not compliant with qualifications.

But I thank you both from the Department for your testimony, and I thank the General Accounting Office and all of your associates for your testimony. I think we are making progress as a result of the cooperation we have had within the executive branch and with GAO. I think this morning, however, we still have a lot to do, and that from some of the questions Mrs. Morella asked it is really a thing that both the legislative branch and executive branch have to do, which is get the word out to the people, so we don't have a lot of corner cutters and book writers that are trying to scare the living daylights out of the American public.

This is a solvable problem. You have shown, even though you have come to this late, but you certainly turned a lot of that agency around in terms of getting the remediation underway, and we appreciate that. That good word needs to go out. The more TV shows, radio shows, Q and A you can answer, and I know that is tough, that is very important, because every little bit helps.

If there are no further questions from any of my colleagues, with that, this hearing is adjourned.

The staff list I will put in the record. Just for the record, J. Russell George, the staff director and chief counsel; Matt Ryan, to my left, senior policy director; Bonnie Heald, director of information; Mason Alinger, clerk; Paul Wicker, Kacey Baker and Richard Lukas, interns; Michelle Ash, minority counsel; Faith Weiss, minority professional staff member and counsel; Earley Green, minority staff assistant; and then the court reporters, Doreen Dotzler, Cindy Sebo and Bob Cochran, who is faithfully writing down to the last second.

Thank you, Bob.

[Whereupon, at 11:10 a.m., the subcommittee was adjourned.]

